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from the editor

JANA MARAIS

In the coming weeks we'll read a lot about Donald Trump – successful businessman, reality TV star, misogynist, racist, demagogue and US president-elect.

Trump may turn out to be a much meeker president than expected; he has already changed his tone dramatically, calling for a unified nation in his acceptance speech. But his victory, brought about largely by white working-class Americans who "want their country back", highlights the rise of nationalism and an extreme right wing in many developed countries, notably in Western Europe.

Teboho Malie, a management consultant in Johannesburg, summed up the sentiment of many: *"For those of us who live in societies that have been characterised by racial oppression and white hegemony this [Trump's victory] is a really sad moment. It suggests that White America strongly feels that its struggles should be blamed on people of colour who are just trying to get ahead. The message is that marginalisation of brown people, whether it is through birtherism, voter suppression, stop-and-frisk, Muslim bans, 'extreme vetting' or border walls, is okay because, presumably, that is what will make America great. […]*

"We're no better off in South Africa. Penny Sparrow, Vicky Momberg, Justin van Vuuren and Chris Hart were just the tip of the iceberg. We have seen plenty of examples to show how corporate SA prefers to hire unqualified white people over qualified blacks who studied at 'former black' universities because that might represent a 'lowering of standards'.

"Brace yourselves. The struggle for equality is going to be long and hard."

We can't do much about the next four years in the US, or how voters may decide in Italy, France and Germany in the next 12 months.

But we can take to heart an anecdote Barack Obama shared at a recent campaign rally of Edith Childs, who used to serve on the county council of Greenwood, South Carolina. Back in 2008, when Obama was campaigning for the Democratic nomination on a miserably cold and wet day, Childs managed to get a tiny, lacklustre crowd of Greenwood supporters roaring with her now-famous rally cry: "Fired up, ready to go!"

For Obama, the lesson from that day was: "One voice can change a room. And if it can change a room, it can change a city and if it can change a city, it can change a state and if it can change a state, it can change a nation, and if it can change a nation, it can change the world."

We may not be able to change the world, but we can change the voice in our homes, our offices, and around our braais. ■

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By Johan Fourie

AFRICAN TRADE

Bribery is bad, but not in the way you think

It's not just poor infrastructure and high tariffs that have a negative impact on trade between African countries. In fact, lowering trade tariffs actually lead to an increase in revenue for governments. Why is this?

One of the biggest barriers to deeper economic integration in Africa is the excessive trade costs that prevent regional trade. Import tariffs have traditionally been an important source of revenue for poorer countries, and it has taken several tangled spaghetti-like agreements to reduce these. Although an agreement has been signed to create a Free Trade Area from the Cape to Cairo, none of the 26 countries have ratified it. Import duties between most African countries remain.

But tariffs are only one of the costs of trade. It takes time to move a container from Johannesburg to Kinshasa, and the journey by land is often filled with tales of unscheduled delays and red tape. I remember travelling through the Victoria Falls border post between Zimbabwe and Zambia a few years ago and asking the truck drivers how long they had to wait to cross into Zambia. Their response: "A couple of days, if we are lucky." This is no way to encourage regional trade.

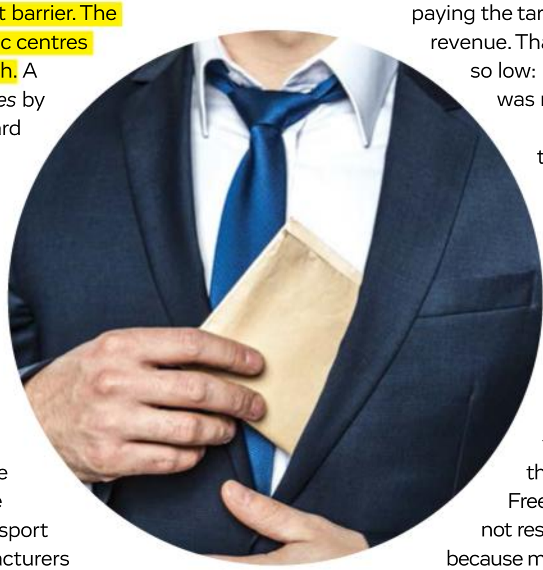
Poor infrastructure is another significant barrier. The massive distances between major economic centres means that the unit cost of transport is high. A new paper in the *Review of Economic Studies* by Tufts University economist Adam Storeygard confirms this. Storeygard measures the impact of the oil price increases between 2002 and 2008 on the incomes of African cities. He compares two types of cities: those with a port on the coastline, and those of similar type but 500km inland. Using satellite imagery captured over that period, he finds that the oil price shocks increased the size of port cities by 7% more than the size of cities in the hinterland. The take-away: high transport costs retard growth. And because many African cities are located far from the coast, the high transport costs of poor transport infrastructure explains why African manufacturers find it difficult to compete with manufacturers in Asia and Europe. Just think of the difficulty manufacturers in landlocked countries like Malawi or Zambia face.

But even where better physical infrastructure reduces transport costs, other, "softer" trade barriers often remain. Corruption, for example. Travelling into Malawi on my trip of a few years ago, we were pulled off the road a few kilometres after the border post by an armed man, and then required to return to the border because we needed "additional insurance". That was a $50 payment that went straight into the pocket of the armed man's friend.

The effects of these "invisible" trade barriers on trade and consequently economic performance have been hard to quantify, though, until now. In a new *American Economic Review* paper – *Corruption, Trade Costs, and Gains from Tariff Liberalization: Evidence from Southern Africa* – Sandra Sequeira of the London School of Economics and Political Science finds that a reduction in tariffs between South Africa and Mozambique in 2006 had a very limited effect on trade. This is surprising: one would expect that lower tariffs would lead to higher levels of trade. And yet, the sharp decrease in tariffs had basically no effect (in technical terms, the elasticity of imports to tariff changes was very low).

The decline in tariff rates at the border resulted in a **30%** decline in the probability of bribe payments and a **20%** decline in the average bribe amount paid.

What explains this surprising result? Sequeira uses a novel dataset of exporters' bribe payments between South Africa and Mozambique to show that the decline in tariff rates at the border resulted in a 30% decline in the probability of bribe payments and a 20% decline in the average bribe amount paid. In other words, the lower tariffs did not actually reduce firms' trade costs, it just shifted from paying corrupt border officials to actually paying the tariffs as required by law, boosting government revenue. That is also why the elasticity of imports was so low: because costs did not fall in practice, there was no concomitant increase in trade.



Sequeira's innovative study shows that high tariffs explain why corruption thrives. Remove the tariffs and the ability to solicit bribes vanishes. But don't think that trade will suddenly blossom. Bribes keep trade costs lower than what they would be if tariffs were fully paid; lowering tariffs only lowers the amount corrupt officials receive.

This has important implications for policymakers: first, lower tariffs may actually result in an increase in tariff revenue as traders switch from paying bribes to paying the now more reasonable official tariffs. Free-trade agreements (with zero tariffs) may not result in a significant fall in revenue either, because much of the revenue goes into the pockets of corrupt officials in any case, and will likely lead to greater transparency; Sequeira finds, for example, that trade statistics also improve when corrupt practices decline.

But don't expect free-trade agreements like the one being discussed at the moment to result in a large increase in regional trade. As long as other barriers, like delays, severe red tape and poor infrastructure remain, regional trade in Africa is likely to remain too weak to foster the economic development it promises to deliver. ■

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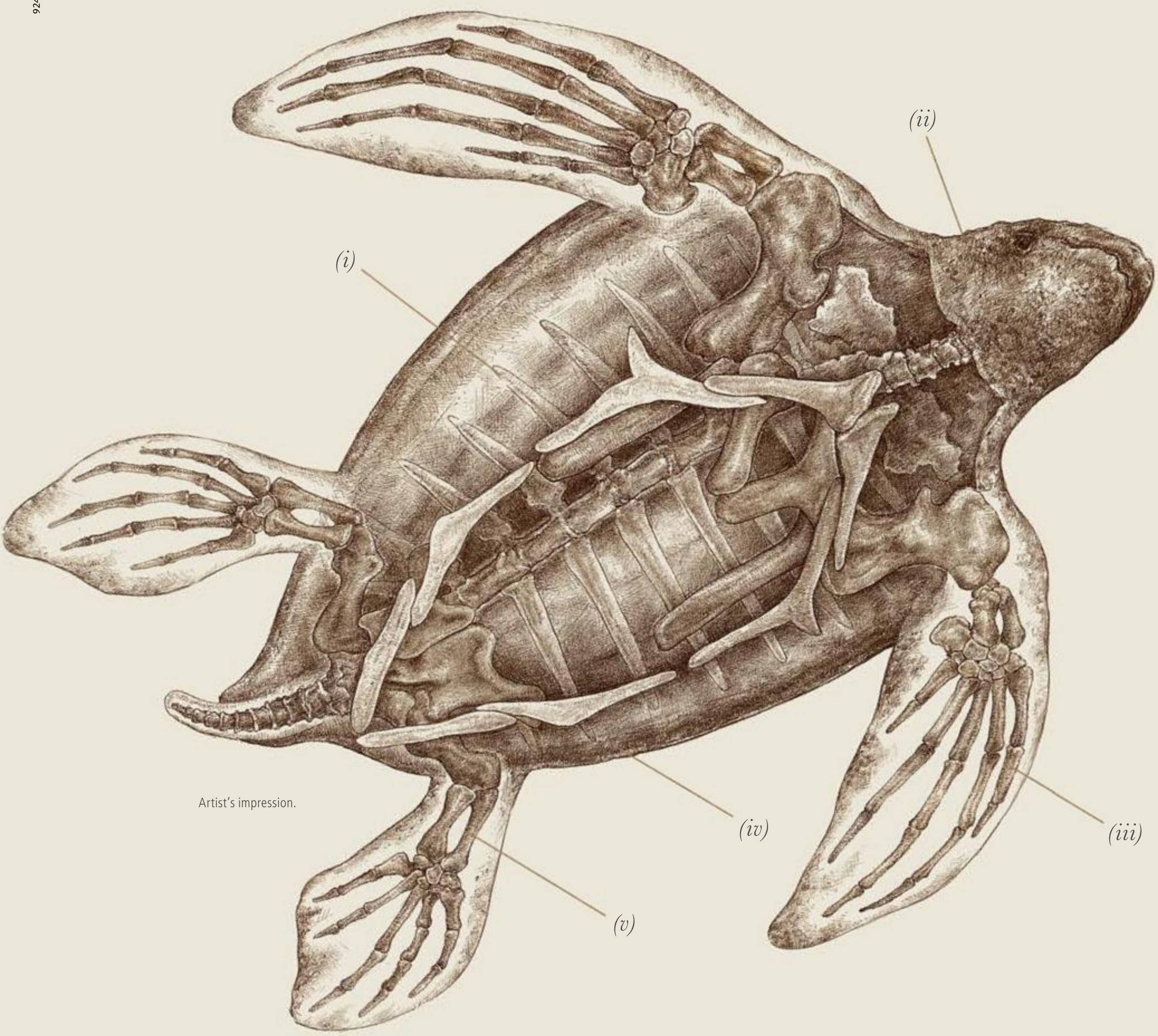

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By Mariam Isa

ENERGY

Why more nuclear power is a bad idea

While South Africa is to embark on a controversial nuclear build programme costing billions, the rest of the world is moving away from nuclear energy, favouring renewable sources of power instead.

The future of South Africa's flourishing renewable energy industry hangs in the balance as Eskom fights to justify its plans to embark on a massive and costly nuclear build programme, believed to be at the heart of the "state capture" controversy, which mounting evidence shows is undermining the country's economy and Constitution.

The utility's shock decision a few months ago to stop signing contracts with Independent Power Producers (IPPs) – in defiance of government policy – alarmed participants in a programme that has attracted about R200bn of investment and fostered one of the fastest-growing renewable energy industries in the world.

SA's renewable energy share of installed capacity has grown from nothing to 5% in four short years, and the 6 376MW of power successfully procured from 102 IPPs so far already amounts to more than 92% of the 6 925MW of renewable energy target, which was initially set for 2020.

Eskom insists that it is justified in digging in its heels due to the high cost of the programme, which allows private companies to tender for contracts to supply its grid with a given amount of power at a set rate over two decades. It also points out that solar and wind resources are variable and unable to provide reliable supply during peak periods.

Eskom's complaint that paying for power generated by renewable technology has so far been much more expensive than coal-fired power is entirely valid, and has been the case in every country that has embarked on the shift away from fossil fuel. But its argument to support building several new nuclear plants to generate an additional 9 600 MW of power in order to meet demand over the coming two decades is deeply flawed.

For one thing, the costs of wind and solar photovoltaic (PV) technology have plummeted in the last decade as the renewables industry expanded globally with the help of more efficient, cheaper technology. Europe is leading the drive to increase capacity in order to reduce carbon emissions and boost supply security – last year, wind farms in Denmark supplied 140% of the country's demand. The state of California is aiming for 50% renewable energy by 2030 and all new homes constructed there from 2020 will have to produce their own electricity.

Nuclear, on the other hand, is on the way out, contributing about 4.4% of the world's primary energy production in 2014 compared with 8% in 2000. Apart from the threat of accidents – albeit rare – the cost of decommisioning old plants that have reached the end of their lifespan has proved to be prohibitive as radioactive waste is cleaned up.

> **Nuclear is on the way out, contributing about 4.4% of the world's primary energy production in 2014 compared with 8% in 2000.**

An experimental wind farm operated by South Africa's national electricity generator, Eskom, at Klipheuwel in the Western Cape.

The case for SA to follow the renewable path is compelling. Research by the Council for Scientific and Industrial Research (CSIR) has shown that having the bulk of SA's generation coming from wind and solar resources, complemented by clean flexible power sources like gas, is not only technically feasible, but the lowest-cost option.

It maintains that without any target constraints imposed on the delivery of new solar PV and wind capacity, new coal and nuclear power in SA would be unnecessary until 2040. The CSIR's computer modelling shows the projected price for new wind and solar PV would be as low as R0.61/kWh compared with new baseload coal at R1.10 to R1.20/kWh and new baseload nuclear at R1.20 to R1.30/kWh.

Unlike coal and nuclear plants, wind and solar technologies also require and consume very little water, so a shift to more reliance on renewables would reduce consumption of the increasingly scarce resource as climate changes result in more arid conditions over much of the country.

Another point to consider is that wind and solar technology is far more nimble – although they generate far less power than coal or nuclear plants, the wind and solar farms that have sprung up in SA over the last few years have been built so quickly that they have often beat completion targets. This is in comparison to the construction of Eskom's Medupi and Kusile coal plants, which have been delayed by several years, while projected capital costs to completion have escalated from around R223bn initially to R295bn.

The anticipated costs of SA's nuclear build plans have been shrouded in secrecy but estimates range from R650bn from supporters to R1.2tr from detractors. Worryingly, the government has decided to put decisions on procurement solely in the hands of Eskom, which means the process will be less transparent.

SA's public will have a better picture of what is on the table after the release of a new long-awaited Integrated Resource Plan (IRP), which will set out the projections on domestic demand and the cost of the different technologies for an optimal energy mix over the coming two decades. Although the intent was to update it every two years as assumptions change, the IRP has not been revised since 2010 due to the conflicts and controversy surrounding the prospect of a massive increase in nuclear power in SA. ■

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Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and left in 2014 to write on a wider range of subjects for several publications in SA and in the UK.

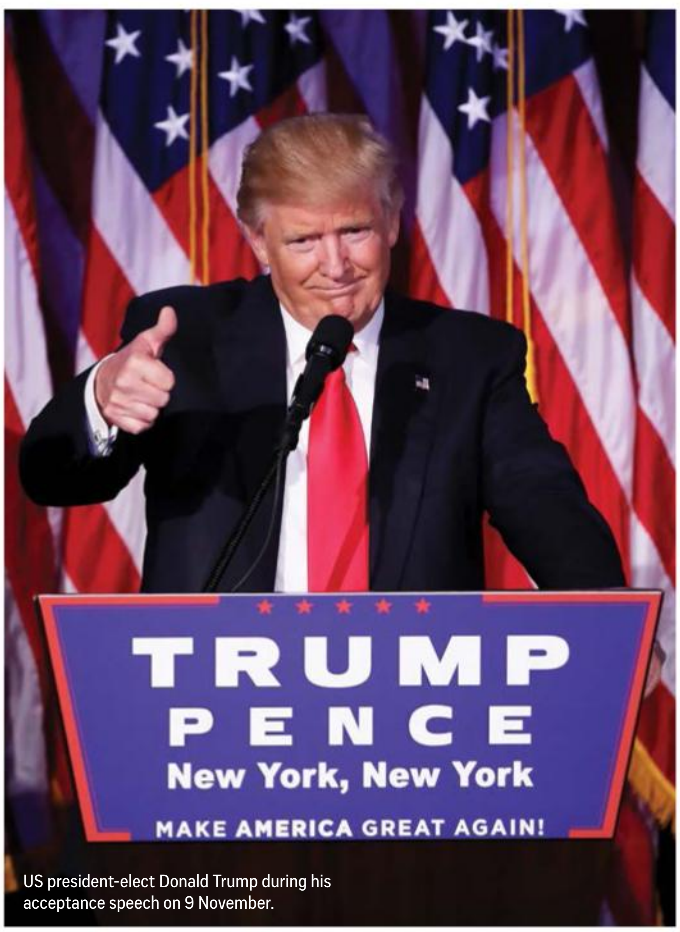
Getty Images/iStock Images

in brief

>> **IN THE NEWS:** Local gold miner heads Down Under *p.10*
>> What's next for soaring Anglo American? *p.11*
>> **TREND:** Local e-tailers brace for major shopping day *p.12*

"We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals. We're going to rebuild our infrastructure, which will become, by the way, second to none, and we will put millions of our people to work as we rebuild it."

– **Donald Trump** in his acceptance speech after winning the US presidential elections. The Republicans also won both houses of Congress.



US president-elect Donald Trump during his acceptance speech on 9 November.

"MR TRUMP'S SUCCESS SHOWS THAT POLITICIANS SHOULD NEVER TAKE VOTERS FOR GRANTED."

– **Malaysian prime minister Najib Razak** comments in a congratulatory message to US president-elect Donald Trump, nytimes.com reported. Razak said Trump's "appeal to Americans who have been left behind – those who want to see their government more focused on their interests and welfare, and less embroiled in foreign interventions that proved to be against US interests – have won Mr Trump the White House".

Najib Razak
Prime Minister of Malaysia

"WHATEVER HAPPENS, IT'S TIME TO BURY NEOLIBERALISM. WE NEED GENUINE WEALTH AND POWER REDISTRIBUTION. ONLY A REAL LEFT CAN FIGHT FASCISM."

– **Naomi Klein, Canadian author,** social activist and filmmaker, commented on Twitter shortly before Donald Trump was named the next US president.

Getty Images/Florian Gaertner/Photothek

Images: Getty Images/Mark Wilson

THE GOOD

The Industrial Development Corporation (IDC) has promised to publish a full disclosure of its loans to politically exposed persons in its next annual report, mainly in order to resume accessing funding from Futuregrowth Asset Management. This follows after the Public Investment Corporation published details of its investments in unlisted entities for the first time in October. While any improvements in transparency should be welcomed, the DA is urging the IDC to publish the details of loans before the end of the year, given the controversy around the IDC's R250m loan to the Guptas for the purchase of Shiva Uranium.

THE BAD

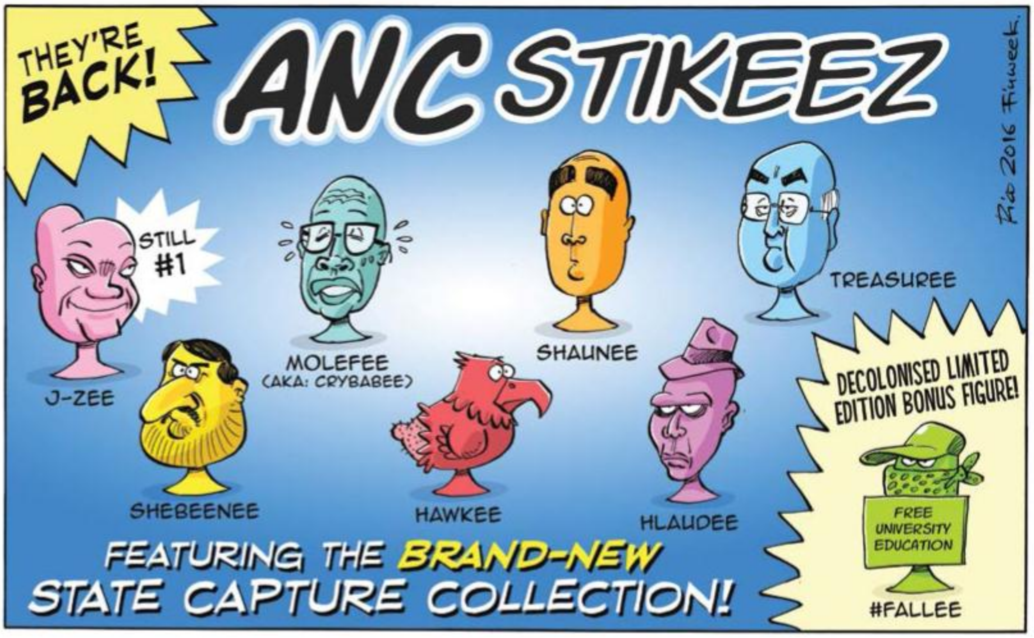
Donald Trump's victory in the US presidential elections following a bitter and divisive campaign has caused much uncertainty in the markets, even though he opted for a more unifying, rational tone in his acceptance speech. Yet whatever Trump's supporters may believe, his proposed populist policies of increased trade protectionism, a clampdown on immigration, a disregard for the science on climate change and a tough-guy approach to international geopolitics will not Make America Great Again, and will in fact leave us all poorer. With a referendum coming up in Italy in December and elections in France and Germany next year, will the swing to the right continue?

THE UGLY

EFF leader Julius Malema should face the legal consequences for his comments outside the Newcastle Magistrate's Court on 7 November, where he said the EFF is not "calling for the slaughter of white people, at least for now". The charges relate to comments he made in 2014 and 2016, calling for people to occupy land, and that white people could not claim ownership of any land in South Africa. Not only are Malema's comments inexcusable, but they also distract from the urgent need to improve the land reform process in SA. Populist rhetoric will not solve the land issue.

DOUBLE TAKE

BY RICO



EMIRATES PROFITS DROP

75%

Emirates, the national carrier of Dubai, saw net profit drop 75% in the first half of the 2016/17 financial year, as a strong US dollar (to which the dirham is pegged), stiff competition and lower demand for air travel weighed on its performance, ft.com reported. It benefitted from lower oil prices, which declined by 10% and accounts for 24% of overall operating costs. Overall, passenger numbers grew 5% thanks to an increase in capacity, but occupancy on flights declined. Emirates launched passenger services to four new destinations (Yinchuan, Zhengzhou, Yangon and Hanoi), bringing the network to 155 destinations in 82 countries.

OIL DEMAND TO PEAK?

15

Oil demand may peak within 15 years as quicker adoption of alternative fuel cars and more aggressive climate targets look set to end growing consumption, the Organization of the Petroleum Exporting Countries (Opec) said in one of the long-term scenarios published in its latest annual report. However, this prediction is based on the Paris climate agreement targets around cuts in greenhouse emissions being fully implemented, and a faster adoption of alternative fuel cars, ft.com said. Should countries be less aggressive in cutting emissions – Opec's core prediction – oil demand is forecast to continue growing beyond 2040, ft.com reported.

INFRASTRUCTURE INVESTMENT DROPS

$51bn

Investments in infrastructure projects on the continent have declined by $51bn from 2015 to $324bn this year, according to a new report by Deloitte. The number of projects has dropped from 301 to 286 over the same period. The decline is partly due to global economic headwinds, low growth and lower commodity prices, Deloitte said, and several large mining projects on the continent having been suspended. Deloitte highlighted the underinvestment in the provision of water on the continent, with political and social pressure expected to mount in light of the growth of megacities without the necessary investment in water infrastructure, *Business Day* reported.

MASSMART DISAPPOINTS

5.3%

Retailer Massmart's latest results disappointed the market, with the group reporting that overall sales growth excluding new stores had failed to keep up with inflation, *Business Day* reported. Massmart, whose retail brands include Game and Makro, said it increased sales from existing stores by 5.3% in the 44 weeks to 30 October, which is lower than product inflation of 6.4%. Including new stores, sales were up 7.6% year-on-year over the period to R73.2bn, *Business Day* said. The company said the decline in sales growth is reflective of the tough trading conditions in SA, as well as in most African countries where they have stores.

By David McKay

Gold Fields ventures into Western Australia

By buying 50% of a new gold project in Australia, Gold Fields departs somewhat from its strategy of boosting assets already in production.

Gold Fields' $270m (R3.6bn) investment in the Gruyere gold project, a venture in Western Australia, takes total spending on new production over the next eight years to R22.3bn – just over half of the gold firm's market capitalisation.

Spending on that scale represents a concerted and aggressive response to the improvement in the dollar gold price, especially as the recovery only started 11 months ago. Interestingly, analysts asked if the response could have been greater in respect of Gruyere.

Why, for instance, hadn't Gold Fields bought 100% of Gruyere, a project discovered and investigated by Perth-based Gold Road Resources? "That was the deal on the table," responded Nick Holland, CEO of Gold Fields. "A full buyout was not on the table."

The SA firm also said that it "...didn't want to bet the farm and throw everything into it", and that "...we wanted to leave a little firepower to look at other opportunities as well". The company earlier espoused a strategy to buy assets already in production, which means Gruyere is something of a departure for Gold Fields. On 14 October, Gold Fields said it planned to invest $1.4bn (R18bn) expanding its Damang mine in Ghana to about 2024.

It also seems that it would have taken an extraordinary offer to knock out the Australians.

Holland's counterparty at Gold Road Resources is none other than Ian Murray, who once presided over the books of Durban Roodepoort Deep (DRD) in the period shortly after ousting of then chairman, the late Roger Kebble. Murray later became CEO of DRD.

He left the company in 2005, emigrating to Australia with which he honoured a pledge to his family to take 12 months off. This involved repairing to Bondi Beach and other such surfing havens, as well as travelling the world and – reportedly – growing his hair long as might befit a surfer.

"I managed to stretch that to two years," Murray said of his sabbatical in an interview. "Then I became a non-executive director of Gold Road Resources just in time for the GEC (Global Economic Crisis). A lot of the executives left the company, so they said: 'You're doing nothing.' So I became the firm's chairman [later to become MD and CEO]."

Murray then pointed the company towards a strategy of exploration at a time when the gold price had started its steep descent and consequently saw the major gold mining companies pull back on finding new discoveries. Murray's decision proved to be an important one.

The big breakthrough for Gold Road Resources was in 2013 with the discovery of Gruyere, a gold resource with 3.5m ounces of gold in reserves, a category of gold that is proven to be economic, and some 6.2m ounces in resources.

What's perhaps most interesting about the Gruyere discovery is that it's the first in its area, which is in the so-called Yamarna greenstone belt, roughly 200km east of Laverton in Western Australia. "We have a 5 000km^2 claim over Yamarna and whoever owns the first process plant in the region has then got control over the belt," said Murray.

The reason for bringing in a partner was because the investment is just too chunky, and risky, for a junior to undertake. There were two streams of financing: debt and selling equity. As it turned out, Gold Fields was the name that survived in a whittling down process from 10 bidders to four. The SA link helped to oil the wheels of commerce, said Murray, whose executive head of exploration and growth, Justin Osborne, had already worked for Gold Fields.

"The first mine is always the most difficult in a new region. But once you've established the infrastructure – electricity, access to water, an airstrip – building subsequent mines becomes easier," Murray added.

He can't rule out ever selling out to Gold Fields in the future especially if the offer is good enough. "I could never say never; it would depend on the value offered bearing in mind that shareholders own the company," he said. ■

editorial@finweek.co.za

Nick Holland
CEO of Gold Fields

Gold Fields was the name that survived in a whittling down process from 10 bidders to four.

Ian Murray
CEO of Gold Road Resources

The Agnew Gold Mine, formerly the Emu Mine, is a gold mine located 3km west of Agnew, Western Australia. It is owned by Gold Fields.

www.goldfields.co.za

Images: Supplied

Demerger looking ever more likely for Anglo

Anglo American's share price is up 250% since January, lifting the pressure to continue selling off assets. The company could now opt for a demerger, which is exactly what the Public Investment Corporation would like it to do.

Shares in Anglo American have charged up an astonishing 250% since January, assisted by the surprising recovery in metal prices and improved volumes in diamond production, which saw its full-year results come in 15% to 20% better than some analysts' expectations.

Whereas the group was bruised and broken a year ago, it is now floating on air; its balance sheet no longer over-stretched even though it has only sold $1.5bn worth of assets in its niobium and phosphate mines.

The significance of this is there's less pressure to sell off more assets unless CEO Mark Cutifani gets absolutely good value for them. Yet, sell is what he wants to do, according to reports in the UK press.

So a question worth asking again (*finweek* asked it in August) is what's the likely effect of the improved market on the restructuring of the South African assets – the iron ore (Kumba Resources) and coal mines – that Cutifani announced in December last year and which would leave behind a "new Anglo" consisting of copper, platinum and diamond assets?

Bear in mind that with the sale of Australian coal mines Moranbah and Grosvenor imminent, there will be even less pressure on the balance sheet with net debt falling below $10bn. At the same time, however, the SA assets will comprise the majority of the remaining group.

The increasing likelihood now is that instead of an outright sale, which is proving hard to do given the complex relationship with Eskom and the difficulties of selling black economic empowerment shares, Anglo will opt for a demerger.

This is exactly what the Public Investment Corporation (PIC), Anglo's largest shareholder with a 14.5% stake, would like Anglo to do, according to a recent report by UBS analyst Kieran Daly. "It [PIC] has a stated preference for a demerger over piecemeal asset sales in SA," said Daly.

Mark Cutifani
CEO of Anglo American

According to Daly, there is potential for a demerger of Anglo's SA assets to afford Anglo a 20% uplift in share price notwithstanding the recent 250% improvement in value. This uplift would be in line with how its peers in the platinum, diamond and copper sectors have performed.

> There is potential for a demerger of Anglo's SA assets to afford Anglo a **20%** uplift in share price notwithstanding the recent 250% improvement in value.

Demergers have generally worked well on the JSE. One only has to look at the performance of Sibanye Gold, formed from the demerger of Gold Fields' Kloof, Driefontein and Beatrix gold mines, as well as South32, which comprises the non-core assets of BHP Billiton, all of them in the Southern Hemisphere.

The demerged Anglo assets may not perform quite as well, however, says Daly. "While we note the relative outperformance of other recent demergers, in our opinion the scope for similar value uplift from Anglo SA is, to some extent, limited given visibility into Kumba Iron Ore is already high [as it is separately listed] and the SA coal assets have been well managed," said Daly.

He also speculated on how such a demerger would be structured.

The first option would be to put the SA assets – 70% of Kumba Iron Ore, 40% of Samancor (manganese assets held in joint venture with South32) and the thermal coal mines – into a new Anglo SA vehicle, which is listed in London and Johannesburg.

The second is for Kumba, which is already listed, to buy the coal mines and Samancor from Anglo, which would then allow Anglo to unbundle its Kumba Iron Ore shares to Anglo shareholders.

One of the other questions about demerging Anglo is the level of debt it would assume. Government is chary of allowing local assets to float with massive debt, which was one of the objections to the demerger of AngloGold's SA assets.

With Anglo's SA mines, however, net debt would be between $900m and $1bn regardless of whether Kumba bought the assets or Anglo unbundled its shares directly, said Daly. ■

COAL EXPORTS AILING

Transnet's plans to boost export coal deliveries to 81m tons a year (mtpa) have been quietly shelved.

CEO Siyabonga Gama told *finweek* on the sidelines of the company's interim earnings announcement that while the company has the capacity to deliver the tons, it just doesn't have the coal. "It's not a target that we have at the moment," he said.

Questions about the ability of South Africa's coal industry to match the ambitions of the state have long been posed. Initially, Transnet said 81mtpa of export coal to ports in Richards Bay, Durban and even Maputo in Mozambique was but a staging post ahead of a more ambitious 94mtpa, and even 110mtpa if the coalfields of Botswana could be persuaded to send their coal south.

It even floated the idea of building its own coal export terminal to rival that of Richards Bay Coal Terminal (RBCT) following a spat over coal rail tariffs involving shareholders of RBCT – including Glencore – and then Transnet CEO Brian Molefe (sound familiar?).

Transnet's interim results show only a small improvement in export coal numbers. The closest Transnet got to this target was some 76.3mt in its 2015 financial year before deliveries fell heavily to 72.1mt. Transnet railed 45.2mt in the first half of the current financial year compared to 44.4mt at last year's interim point.

However, Mlamuli Buthelezi, chief operating officer of Transnet, said there were signs of "green shoots" in the commodity market most typified by the significant improvement in the coal price this year. "It is absolutely significant," said Buthelezi of the improvement in thermal coal prices. "What we have seen in the past two months is that we are beginning to run trains to Maputo – about 20 trains a week from about five previously.

"Demand at RBCT looks much healthier, which is coupled with improvements in our on-time departures and arrivals," he said. "Equally, coal to Navitrade [a coal terminal which is also in Richards Bay and which is owned by Grindrod] is getting to 19 to 20 trains a week. We are seeing good demand coming through on all channels," he said.

Gama also said that if the improvement in the coal market continued, it might be possible to accelerate the development of the coal rail capacity expansion in the Waterberg region in Limpopo.

"In terms of the Waterberg, we have tried to improve the existing line. The planned upgrade has now moved from 2019 to 2022 or thereabouts. If the coal price continues to recover that could probably be accelerated," he explained.

Transnet said in October last year that the expansion of its Waterberg capacity would be put out to 2021. It had earlier signed off on expenditure of R5bn to lift coal railing capacity from the Waterberg coalfields to about 6mtpa from 2mpta – an important step in eventually expanding the line to about 27mtpa. ■

By Jessica Hubbard

Cashing in on the Black Friday online retail bonanza

This day, which was started in the US and will see retailers offering fantastic bargains, is fast gaining traction in South Africa.

Black Friday, the annual retail shopping feast, falls on Friday 25 November this year, and South Africa's online retailers are gearing up for an influx of bargain-hungry shoppers. Although it is a longstanding American "tradition" (it is the day following Thanksgiving Day in the US, and marks the beginning of the country's Christmas shopping season), Black Friday has become a global shopping phenomenon – with retailers offering huge discounts on a range of products.

In SA, where e-commerce has been steadily gaining momentum among a young and internet-savvy population, Black Friday is becoming a significant day for e-tailers.

"For local e-commerce sites, Black Friday provides an immense opportunity to make significant transactions in the run-up to Christmas," says Charlie Stewart, CEO of digital marketing agency Rogerwilco.

Flash sales and feeding frenzies

According to Stewart, interest is growing "exponentially". He notes that in 2015, Google Trends indicated that roughly four times as many people searched for Black Friday deals than in 2014. This isn't going unnoticed by the big names in local e-commerce, which have seen spikes in sales that reveal interest has translated into transactions.

"In 2014, the year South African retailers started to run Black Friday campaigns, sites like Spree and Kalahari.com reported huge surges in web traffic and sales," says Stewart. "What's interesting is seeing how e-tailers have played with the concept of flash sales... earlier this year Chris Willemse Cycles ran a Black Braaiday campaign around Heritage Day – and saw a 150% growth in online sales when compared to the previous weekend."

Kevin Tucker, founder of the online price comparison guide PriceCheck, echoes this sentiment, saying that last year Black Friday was "immensely successful" for all retailers that participated, citing Checkers, Dis-Chem and takealot as among the standouts.

"Black Friday offers a specific day that South African consumers can get excited about, knowing that there will be genuine deals," Tucker adds, although he cautions e-tailers against going 'too low' in order to win over SA shoppers.

"The great thing about Black Friday is that it is an opportunity to acquire customers at low cost," says Tucker. "So it's imperative not to create a negative experience. Don't offer products that aren't selling throughout the year and don't offer poor discounts. Anything below a 30% to 40% discount will be seen as a cop-out."

> "For local e-commerce sites, Black Friday provides an immense opportunity to make significant transactions in the run-up to Christmas."

Optimising the experience

Apart from treading a fine line between discounts and sheer giveaways, Rogerwilco's Stewart says that e-tailers should also be paying close attention to optimising the mobile experience in the run up to retail's big day out.

He points to a report by research firm Effective Measure, which indicates that 41% of South Africans prefer to shop using a mobile device – yet many local e-commerce sites offer a poor mobile browsing experience.

"While it may be too late for retailers to address their website's mobile browsing experience, this is something they need to focus their attention on in the coming month," notes Stewart.

In addition, he says that starting now, e-tailers should be creating landing pages for their Black Friday deals. According to Stewart, even if they don't populate these with their special offers until late November, merely creating the pages will encourage Google to index the sites – thus increasing the chances of people finding their sites in the days leading up to Black Friday.

"At the moment, a search for Black Friday deals 2016 returns no local results on page one, so there's a good opportunity to steal a march on the competition," he adds.

Lastly, e-tailers should take a closer look at their existing infrastructure. In recent years, the additional web traffic generated by flash sales has led to some high-profile website crashes – with all the resulting social media vitriol and brand damage. Now, with new technology platforms providing scaled hosting options, local e-tailers have the means to make sure that more servers are made available as site traffic swells.

'Just because it's on sale...'

For consumers on the lookout for juicy deals, Tucker from PriceCheck urges shoppers to look closely at return policies.

"Always understand the return policies and make sure the products you're buying are new," he advises. "Be sure you're not buying old stock or refurbished products. Just because it's on sale, doesn't mean you have to keep it if it's defective."

Also, be patient (although this is not a quality most eager shoppers are renowned for!). If you're not sure who's going to be offering Black Friday deals, Stewart recommends setting up Google Alert to send you emails each time Black Friday is mentioned in online chatter, and of course, monitor your favourite retailers' social media platforms for updates and information. ■

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41%

of South Africans prefer to shop using a mobile device – yet many local e-commerce sites offer a poor mobile browsing experience.

Charlie Stewart
CEO of Rogerwilco

market place

THIS WEEK:

>> **House View:** Facebook, Nampak *p.14*
>> **Killer Trade:** Things looking up for PPC *p.15*
>> **Simon Says:** Views on Afrimat, Truworths, Richemont, Novus, Consolidated Infrastructure Group, Shoprite *p.16*
>> **Invest DIY:** A look at what's happened to Brazil since its downgrade *p.17*
>> **Pro Pick:** A well-positioned healthcare stock *p.18*
>> **Investment:** How to rebalance your portfolio *p.19*
>> **Technical Study:** The bear is out on the prowl *p.20*
>> **Education:** Saving up for your child's studies *p.22*

FUND IN FOCUS: PSG FLEXIBLE FUND

By Niel Joubert

Building wealth with mispriced quality

The portfolio aims to achieve superior medium- to long-term capital growth through exposure to selected sectors of the equity, gilt and money markets.

FUND INFORMATION:

Benchmark:	Inflation + 6%
Fund manager:	Shaun le Roux and Paul Bosman
Total expense ratio:	2.13%
Fund size:	R8.16bn
Minimum lump sum / subsequent investment:	R2 000 lump sum or R250 monthly debit order
Contact details:	0800 600 168 / assetmanagement@psg.co.za

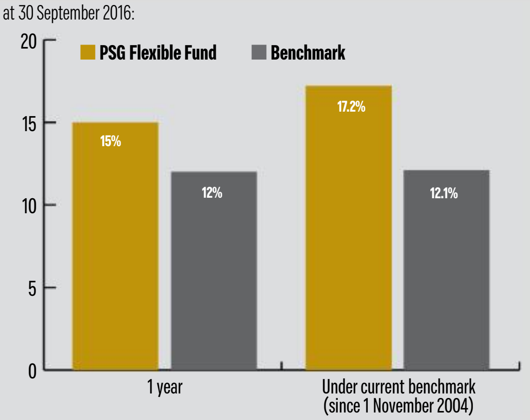
TOP 10 EQUITY HOLDINGS

As at 30 September 2016:

1	Berkshire Hathaway
2	FirstRand
3	Glencore
4	J Sainsbury
5	Old Mutual
6	Discovery
7	Imperial
8	Super Group
9	Capital One Financial Corp
10	PSG Group

PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 September 2016:



Fund manager's insights:

The PSG Flexible Fund is appropriate for investors who seek exposure to the equity market but with managed risk levels, focus on a medium- to long-term investment horizon and aim to build wealth over this time, say Shaun le Roux and Paul Bosman, fund managers.

According to them investors who wish to participate in equity markets should always take a long-term view as stocks are inherently volatile.

"At PSG Asset Management we do not look at what returns a particular market or index is likely to achieve, but rather focus on finding companies which we believe have a strong probability of producing the returns our clients need over time," they say.

"Right now we are finding both local and particularly global companies which are likely to do this. We are, importantly, also avoiding expensive stocks which have a probability of causing investors to fail to achieve their investment objectives."

They say there are "limited opportunities to buy high-quality businesses at attractive prices" and hence they sit with healthy levels of cash, currently 27.5%.

"This should buffer the fund against future volatility and offers us the opportunity to buy quality companies when prices are attractive."

According to them they are long-term investors in companies and "not traders", therefore they do not attempt to forecast what a company's share price will do in the near future.

"Rather, we invest in quality companies which are run by managers who take a long-term view. The fundamentals in these companies do not change overnight and the price of the shares in these companies typically take time to re-rate."

When deciding on what companies to buy, Le Roux and Bosman say they are "essentially looking to buy mispriced quality". This means they look for quality companies that are trading at less than they are worth.

"We are looking to own quality companies over time," according to them. "These are companies which have a sustainable competitive advantage in the areas in which they operate and are managed by teams that have a demonstrated track record of allocating capital in the best long-term interests of their shareholders. These companies are frequently run by managers whose own interests are strongly aligned with that of the shareholders."

Why *finweek* would consider adding it:

The PSG Flexible Fund has a long track record of achieving equity-type returns at a significantly lower level of risk. It has a demonstrated record of capturing much of the upside of the market during good times, whilst showing a reduced participation in significant market corrections. The fund has matched the FTSE/JSE All Share Index on an after-fees basis since 2004, despite holding an average cash level of 26.4%. ■

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FACEBOOK

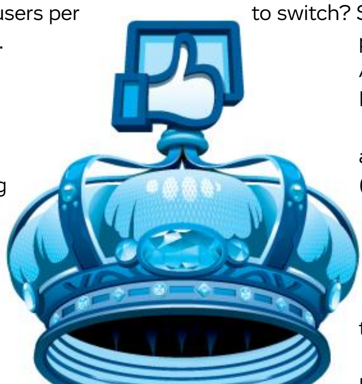
BUY SELL HOLD

By Simon Brown

Can't see global leader being dethroned

Facebook is the largest website on planet Earth with almost 1.2bn daily active users and just under 1.8bn active users per month. Staggering numbers. Revenue for the last quarter was just over $7bn and they are firing on all fronts. Revenue is pretty much derived only from advertising and the company has just over $26bn in cash.

Back when Facebook first overtook MySpace as the largest social network, the thinking was that social networks would come and go, but Facebook now owns that space and I struggle to see a future where it is not the dominant social platform.



Our grandmothers have joined and are we really going to be able to get a billion people to switch? Sure, there are competing products, especially in Asia, but for many people Facebook *is* the internet.

Future growth will be less about adding more users (Who's left to join?) and more about new services and revenue models. Weakness post the latest results is an opportunity to buy.

The stock trades on the New York Stock Exchange and buyers would need an offshore brokerage account; chat to your broker to see if they offer. ■

Last trade ideas

HOLD Famous Brands
10 November issue

BUY CoreShares S&P Global Property ETF
3 November issue

WAIT Taste Holdings
27 October issue

BUY Metrofile
20 October issue

Getty Images/iStock Images

NAMPAK

BUY SELL HOLD

By Moxima Gama

Attractive opportunity

Although upside impetus is a little sluggish at present, Nampak is still trading at attractive price levels. Nampak, the largest packaging company on the continent with operations in 12 countries including South Africa, has been facing numerous challenges, including foreign-exchange constraints in its key markets in Nigeria and Angola.

The group said at an investor day at the end of September that the external environment remains "challenging", including slowing GDP growth, currency volatility, high inflation, drought conditions and lacklustre global trade and capital flows impacting its operations. In SA, which contributes about half to trading profit, it is seeing slowing demand as consumers are under pressure, Nampak said.

Despite the challenges, it remains confident about the overall long-term investment rationale in key growth markets – SA, Nigeria, Angola and Ethiopia. "Demographics remain compelling, underpinning substantial growth in packaging," Nampak said. Packaging demand is driven by improved markets for consumer products, expanding individual incomes and a growing population of youthful consumers, it said.

> Currently trading at a very cheap price-to-earnings ratio of **10.37,** according to INET BFA data, I believe Nampak offers a good buying opportunity in the short to medium term.

In addition, Nampak has been taking prudent measures to strengthen the balance sheet to be able to weather uncertain macroeconomic times. Currently trading at a very cheap price-to-earnings ratio of 10.37, according to INET BFA data, I believe Nampak offers a good buying opportunity in the short to medium term.

How to trade it: Currently range bound, an upward move above 1 950c/share would trigger a buying signal, with potential gains to the first target at 2 245c/share. Stay long above that level as gains to 2 840c/share could then follow. Maintain a fair trailing stop-loss. Alternatively, refrain from going long on a reversal below 1 760c/share (or even sell); the downside target would be at 1 465c/share. ■

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Last trade ideas

HOLD Clicks Group
10 November issue

BUY Redefine Properties
3 November issue

SELL Steinhoff International Holdings
27 October issue

HOLD Capitec Holdings
20 October issue

By Moxima Gama

PPC

End of PPC's downward cycle?

Despite expensive expansion projects and weak exchange rates north of the border affecting its bottom line, the cement maker is optimistic that it will be able to improve costs in the near future.

Struggling cement maker PPC, which had to raise R4bn in equity in September to pay off some debt and strengthen its balance sheet, has seen its share price decline nearly 170% over the past two years as boardroom squabbles and an expensive foray into the rest of the continent weighed on performance.

The company recently said it has achieved "reasonable cement volume growth" in the six months to end September, but that weak selling prices have weighed on performance.

Its headline earnings per share (HEPS) for the period is expected to be between 65% and 85% lower than in the six months to end March. The main contributor to the decline is its high financing costs, it said.

In addition, the devaluation of local currencies, particularly in the Democratic Republic of the Congo (DRC) and Rwanda, against the US dollar has led to revaluation losses being recognised on foreign currency-denominated receivables and borrowings, PPC said. It will release its interim results on 16 November.

PPC in September told investors that it will be focusing on its empowerment transaction, the delivery of existing projects in SA, the DRC, Zimbabwe and Ethiopia, as well as its internal initiatives to improve costs and efficiencies. The group's existing empowerment deal, entered into in 2008, unwinds in December.

52-week range:	**R4.19 - R11.69**
Price/earnings ratio:	**6.7**
1-year total return:	**-39.95%**
Market capitalisation:	**R10bn**
Earnings per share:	**R0.92**
Dividend yield:	**3.57%**
Average volume over 30 days:	**11 159 573**

SOURCE: INET BFA

PPC aims to generate 40% of sales outside its home market by 2017, up from 30% in the six months to end March.

In the DRC, where the group is working on a $280m project, PPC is considering "strategic" options to reduce its risk exposure to the country, it said. The new mill in Zimbabwe – hot commissioning has already started – is expected to improve Zimbabwe's margin by 3% to 5%, and its plant in Ethiopia, which is estimated to cost between $170m and $180m, is scheduled for commissioning in the June quarter of 2017, it said.

In South Africa, which still forms the core of its business, stiff local competition has continued to weigh on selling prices, while it has also seen volume declines in Gauteng, Mpumalanga and North West.

However, higher shipping rates and a weak rand have led to a decline in imports. In the Western Cape, imports were down 79% year-on-year in the June quarter, while nationally imports declined by 47% year-on-year. About 60% of imports came from Pakistan, with the balance from China, PPC said.

Although PPC's performance is highly dependent on the state of the construction sector in particular, I believe the downward cycle in the share price is on its last leg. Current prices are cheap and attractive, and a recovery finally seems underway.

PPC

SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: After breaching key support at 1 495c/share in January, PPC has fulfilled its downward target at 540c/share (it recently troughed at 415c/share in July). The three-month relative strength index (RSI) is forming a rising bottom, meaning investors are warming up. A positive breakout out of the current bear trend would be signalled above 755c/share, with potential gains to 1 080c/share. Go long above 755c/share and increase positions above 1 080c/share. Next target would be at 1 495c/share.

Alternative scenario: Downside through 415c/share could see PPC retest its 1998 low at 200c/share. ■

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

Image supplied

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

AFRIMAT

This is the one

Afrimat results again showed why it is the best construction company in South Africa, reporting a 25.3% increase in headline earnings per share (HEPS). That said, the company has moved into iron ore with the acquisition of Diro Manganese, which was in business rescue. Diro has reserves of 5.6m tons and, importantly, a 1.3m ton stockpile, although it does not indicate a cost to mine the reserves. This certainly is a new focus for Afrimat, but it states that turning around businesses is what it does (aside from mining aggregate and the like) and on that front it is correct. Furthermore, Diro sells its iron ore via Sishen to the Saldanha iron ore export channel, so Afrimat doesn't have to worry about moving the iron ore. On a historic price-to-earnings ratio (P/E) of just over 15 times and a dividend yield just above 2%, the stock is not expensive and to anybody looking for mining/construction allied stock to invest in, this would be the one.

TRUWORTHS

A new level of pain

The Truworths update was a shocker, although on the surface sales for the 18 weeks to 30 October were up 39% year-on-year. But strip out the newly acquired UK-based fashion retailer Office, and sales were down on the previous period with no details of new stores or inflation. Bottom line, they retracted by at least double digits, potentially as much as 20%. The consumer has been under pressure for a while, so this is not new, but this represents a new level of pain and we saw other retailers getting hit at the same time over sales concerns in the current reporting period. Retailers have been able to hang on to sales via promotions and discounting but maybe the consumer is starting to really crack; we'll need to see more updates and results but it looks messy.

Bottom line, they retracted by at least double digits, potentially as much as **20%.**

RICHEMONT

A Tourbillion 'Pour le Merite' wristwatch by Richard Lange. This model is produced by A. Lange & Söhne, which is owned by Richemont.

The pressure will pass

Richemont* was another group reporting shocking results on the back of very soft demand for its products. It has also announced a massive reshuffling of top management and the stock traded up 8% on the day of the results. But I am not sure how much is from results, which were less bad than expected, or how much was a short squeeze (those who had sold the stock short, scrambling for the exits and pushing the price higher). Globally the luxury sector is under pressure but this will pass and concerns that people will no longer wear luxury watches, rather opting for smartwatches and the like, is misguided. A person looking to buy a very expensive, fancy watch is not looking for a FitBit or Apple watch. They want the fancy, expensive watch. So I continue to hold my Richemont shares for the long term.

NOVUS

Best avoided

Novus** results were largely as expected with revenue up 4.5% but margins down 4.9% at 26.5%, and HEPS down 16.4%. Printing is a tough sector and while Novus is the key player in the space and is on a historic P/E of below 8 times with a dividend yield of over 5%, the dividend could fall and the P/E is rising with falling HEPS. At best this is a value trap and I would stay well away.

CONSOLIDATED INFRASTRUCTURE GROUP

Buy some now

Consolidated Infrastructure Group announced the details of its proposed rights issue with every 100 shares held earning 23.80682 rights at 1 930c. The stock is trading at 12-month lows and well off the 2015 highs of over 3 500c. This is a great price at which to pick up some more of a great company.

SHOPRITE

No need to worry

Whitey Basson has announced he is leaving Shoprite*, a great loss to the company but investors should not be concerned. His replacement, Pieter Engelbrecht, is currently the chief operating officer who has worked closely with Basson, and it should be business as usual. ■

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**The writer owns shares in Richemont and Shoprite.*

**Media24 is the majority shareholder in Novus. *finweek* is a Media24 publication.

Gallo Getty Images/Reuters

By Simon Brown

ECONOMIC OUTLOOK

Taking comfort from Brazil's experience

Many investors are deeply concerned about President Jacob Zuma's shenanigans and the looming prospect of a sovereign debt downgrade. But looking at what has happened with fellow Brics member Brazil in the past few months it seems the future isn't as bleak as it appears.

With the recent release of the Public Protector's report on state capture and a looming downgrade to junk by Standard & Poor's (S&P), it's gloomy right now in South Africa. But is it the end of the world?

The short answer is that this is 'Certainly not'. In fact, we may be at the start of a recovery in our local market and our currency and we have some evidence to support the theory – Brazil.

But first it is important to understand that markets tend to price in the future. The impending downgrade to junk and state capture are not events that just appeared out of nowhere – they have been brewing for a while. All investors have had them on their radar for a year or more, so they have been positioning their portfolios accordingly and as such the news is being priced in.

Wayne McCurrie, fund manager at Ashburton Investments, tweeted: "The credit default swap spread for SA bonds is higher than six countries that are junk status. So a downgrade already in price."

Back to Brazil. S&P downgraded the country to junk status in September last year, with Fitch and Moody's doing the same in December and February respectively. The Brasil São Paulo Stock Exchange Index (IBOV) was trading at just over 43 000 on the last trading day of 2015. It is now trading up at almost 65 000. Although to be fair, it was almost 70 000 just before and again after the 2008/9 financial crisis, whereas our local market is only just below the all-time highs.

Brazil's parliament also voted to impeach president Dilma Rousseff at the end of August for illegally manipulating government accounts and back then the IBOV was trading at around 58 000.

So despite all that bad news, the market has had one of its best years ever.

Turning to the Brazilian currency, the real: it started the year at 3.95 against the US dollar and is now trading around 3.25.

So what does this mean for South Africa? If we take the Brazilian example and accept that we're in a similar position with junk status looming and a president under investigation, when the news really breaks (that we are downgraded to junk status), we could be in for a rally on both our stock market and the currency.

▲ Brazil's now former president Dilma Rousseff, at the final session of debate and voting on her impeachment trial in Brasília in August.

Gallo Getty Images/Reuters

Locally our market is not cheap, but it is important to consider two issues: First, the overall market has pretty much gone sideways since mid-2014. The impact of this sideways move in valuations is that while prices have done nothing, earnings have been increasing (even if modestly). So the sideways move has improved valuations for our market.

Second, Naspers* has an excessive price-to-earnings ratio (P/E), and with a 19% weighting in the Top40, skews the overall P/E of our market.

In other words, our market is offering better value than it did back in 2014. So, while many are concerned regarding junk status and our president, with both factors appearing negative on the surface, it could be a case of the news now being confirmed and markets now looking forward to a more positive future, although challenges will persist. Foreign buyers will potentially swarm in (strengthening the rand) and buy our listed stocks (pushing the JSE higher).

We may be at the start of a recovery in our local market and our currency and we have some evidence to support the theory – Brazil.

So the bottom line is that, maybe it *is* darkest before the dawn, and while there is a lot to be concerned about right now and we're not exactly Brazil, maybe we should also be expecting a stronger rand at below R12/$. Maybe the JSE will be hitting 60 000+ sooner than we think. I am not rushing out and buying, but certainly I am keeping a close eye on things and expecting a positive 2017 for our market. ■

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*finweek *is a publication of Media24, a subsidiary of Naspers.*

By Shaun Murison

NETCARE

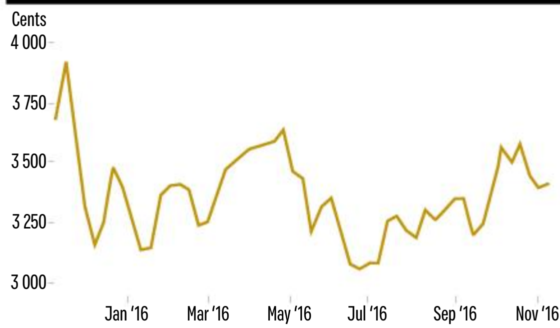
Robust locally listed healthcare group one to consider

Netcare, which has a presence both in South Africa and in the UK, stands to benefit from the overburdened public health systems in both countries, offering a viable alternative for patients.

In uncertain economic times it is always worthwhile to have some exposure to equities that are considered less affected by the general fluctuations of the business cycle and in turn deemed more defensive in nature. The healthcare sector would assume such a role as sickness will always remain, no matter what the economic environment.

Within the healthcare sector, the locally listed Netcare boasts the largest private healthcare network in South Africa and the United Kingdom.

NETCARE LIMITED



52-week range:	R29.10 - R39.94
Price/earnings ratio:	18.85
1-year total return:	-7.68%
Market capitalisation:	R50.45bn
Earnings per share:	R1.83
Dividend yield:	2.67%
Average volume over 30 days:	3 858 805

SOURCE: INET NFA

South African operations

The company's local operations account for the vast majority of group operating profit (around 85% in the first half of the 2016 financial year), and are made up of the hospital, emergency services as well as the primary care and national renal care (NRC) divisions. The group has 55 owned and managed hospitals, 48 retail pharmacies, 66 Medicross and dental care centres, 20 Prime Cure clinics, six Netcare travel clinics and 58 NRC units.

New hospitals brought on line in the 2015 financial year have increased capacity and will in turn add to the bottom line as they become fully integrated. The recently released trading statement from Netcare has shown that the new hospitals are already realising occupancy rates of nearly 60% with the full benefit thereof expected to be realised in the first half of the 2017 financial year. Management is committed to continuing to improve on operational efficiencies with the aid of IT and automation projects over the next few years.

The company's UK operations account for the balance of the group's operating profit at around 15% (as of the first half of the 2016 financial year).

The UK operations

The company's UK operations account for the balance of the group's operating profit at around 15% (as of the first half of the 2016 financial year) and are made up of 61 acute care private hospitals, 183 operating theatres and 54 in-house pharmacies. The healthcare operations have and will continue to pick up the supply gap constraints realised by the National Health Service (NHS), which appears unlikely to abate and in turn continues to drive demand. The group is also currently finalising rental reduction negotiations, which should help improve earnings going forward as operational efficacy is once again demonstrated as a current priority.

The fundamentals

The Netcare Group trades on a forward price-to-earnings ratio (P/E) of around 15 times, which assumes a discounted value proposition to its direct competitor in SA, Life Healthcare (forward P/E at around 20 times), especially when the market leading positioning of the group is considered. The share has also historically produced a high return on equity to investors at around 25% and providing them with a healthy dividend yield in the region of 3%.

In summary

For those looking for a defensive diversification in an equity portfolio, Netcare appears to fit the criteria while providing a relative discount entry proposition into the sector. In the South African market, it boasts the best coverage, in a region with an increasing disease burden. In the UK, the company is well-placed to benefit from an overloaded NHS system. Increased capacity combined with operational efficiencies (currently a priority of management) should translate into improved earnings noticeable into the 2017 financial year. It also returns a fair yield back to investors in terms of dividends. ■

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Netcare's Milpark Hospital in Johannesburg

Foto24/Gallo Images/Getty Images

Shaun Murison is a market analyst at IG.

By Schalk Louw

PORTFOLIO MANAGEMENT

How cautious is your cautious portfolio really?

When the markets move upwards for some time it's easy for greed to take over. It's during these times that cautious investors should rebalance their portfolios regularly to ensure they stay within their chosen risk profiles.

It is a well-known fact that investors' emotions are mainly driven by greed and fear. As long as markets continue to move upwards, greed has a tendency to run even faster than the market itself, and many investors forget that they may have moved outside of their risk profiles in the process. Only once the market pulls back strongly, like it did these past few months, do investors realise that they may have acted outside of their personal risk profiles. For many it is often too late to act in a corrective manner and they are forced to face the storm head-on until it passes.

It all starts with determining what exactly classifies an investor as cautious, or more specifically, moderately conservative. A cautious investor's main goal is capital protection, but they are also aware of the fact that short-term investment risks may have to be taken in order to achieve good long-term real returns. The portfolio consists primarily of income-orientated asset classes (such as cash, bonds and properties), but it may also contain a significant number of shares (with higher volatility) from time to time (between 30% and 40% of the total portfolio composition). Cautious investors may need access to their investment funds in as little as three years.

Two main issues arose recently: investors became so overwhelmed by impressive historical returns that they invested capital that should never have been exposed to higher risk investments like shares. Secondly, investors who acted within their cautious risk profiles never adjusted portfolio levels (rebalanced) after the share portion of their portfolios increased so significantly that it no longer fell within their risk profiles.

Rebalancing is an extremely important part of managing a personal investment portfolio and can be done in one of three ways:

1. Rebalance periodically by doing a proper analysis of your portfolio at least once a year in order to determine whether your different asset classes still fall within your specific risk profile.

2. Rebalance after a specific threshold or asset weight has been achieved by bringing asset levels down to your original weighting. By using a cautious investor as an example, the investor may want to adjust once their exposure to shares has increased to more than 40% of the total portfolio value by decreasing this asset class back to its initial level of 30% of the total portfolio value.

3. Rebalance after a specific threshold or asset weight has been achieved, and then stick to that new limit. A cautious investor in this instance, for example, would like to adjust their portfolio once the exposure to shares has increased to more than 40% of the total value by sticking to a 40% allocation as the new exposure percentage. They will then rebalance regularly to stick to this 40% allocation.

If an individual had invested their capital in the FTSE/JSE All Share Index at the beginning of 2000, the investment would have grown at an annual rate of 14.6%. A cautious investor would have invested only around 30% of the total capital in shares, while investing the remaining 70% in, for example, the All Bond Index, which would have meant that by March 2006 the portfolio's exposure to shares would have increased to more than 40% of the total value. If the investor had rebalanced by lowering their exposure to shares to its original 30% allocation, and had done so every single time it reached levels of above 40%, the total portfolio would have grown by 14.2% annually over this 16-year period to date. This reminds me of the story of the tortoise and the hare that raced for the finish line – nearly the same amount of growth without the sleepless nights.

> If an individual had invested their capital in the FTSE/JSE All Share Index at the beginning of 2000, the investment would have grown at an annual rate of
>
> 14.6%.

Always be cautious and ensure that you remain within your personal risk profile. If you have fallen outside of these levels, rebalance and monitor your personal portfolio on a regular basis, because your wealth is of more importance to you than it is to anyone else. ■

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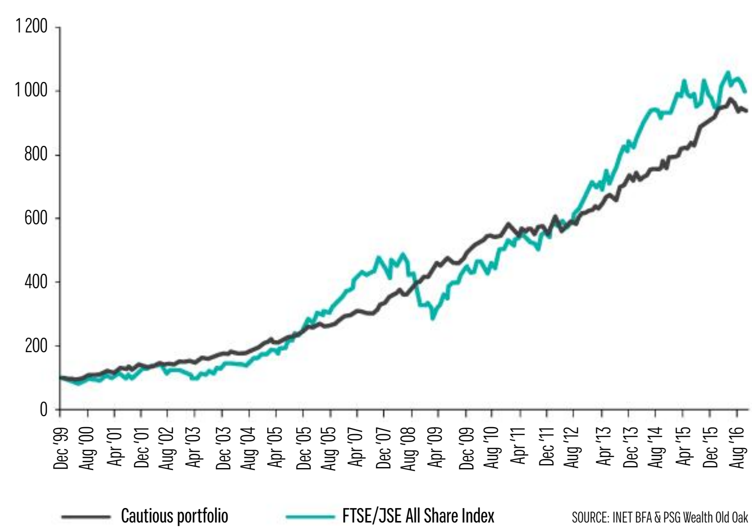
Schalk Louw is a portfolio manager at PSG Wealth.

PERFORMANCE OF CAUTIOUS PORTFOLIO VS FTSE/JSE ALL SHARE INDEX



SOURCE: INET BFA & PSG Wealth Old Oak

By Lucas de Lange

INVESTMENT

Bear has major shares in its clutches

Some local stocks have dropped by over 40%, and even large international companies have taken a knock.

As is apparent from the accompanying tables, the JSE is in the process of undergoing a change in gear with an increasing number of top shares landing in a bear market when measured in terms of their 200-day exponential moving averages (EMAs)*, which are trending down. Some major shares such as Old Mutual, Truworths, Mr Price and Aspen, to mention a few, are even showing serious losses.

Retailers such as Truworths and Mr Price, which have decreased from their highs by 41% and 40% respectively over the past year or two, are hurting many portfolios. And they could retreat even further as there are no signs of them bottoming out. The idea is that when the long-term average drops, it simply reflects that most of the market players have turned negative. This also means that many investors are sitting on the sidelines.

Even a heavyweight hedge counter and good dividend payer such as British American Tobacco entered a bear market when measured in terms of its 200-day EMA. This is the first time since 2010 that this has happened to this top international share on the JSE. It's the largest investment held by Reinet, which has also entered a bear market since September. This ended a bull market that has virtually lasted since its listing in 2008.

That they find themselves in good company is apparent from the fact that indices such as the Alsi40, the Fini15 (the 15 major financial shares) and the Indi25 (the 25 top industrial shares) are also experiencing bear markets when measured in terms of the trend of their 200-day EMAs.

It therefore comes as no surprise that many portfolio managers are sitting on the sidelines. We are punch drunk, one of them remarked, owing to factors such as a weak economy, an overvalued JSE,

STRONGEST SHARES

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
EXXARO	30.2
SOUTH32	28.6
ASSORE	25.5
ARCELORMITTAL SOUTH AFRICA	23.6
ANGLO AMERICAN	22.3
KUMBA IRON ORE	21.8
RAUBEX	19.7
AVENG	19.6
GLENCORE	18.0
BLUE LABEL TELECOMS	17.0
KAP	15.2
CAPITEC	12.9
WBHO	11.3
SAPPI	11.2
AFRICAN RAINBOW MINERALS	8.0
RHODES	7.6
NEDBANK	7.1
NORTHAM	6.9
TSOGO SUN	6.8
SANTAM	6.8
STEINHOFF	6.3
SA-CORP	6.2
PAN AFRICAN	5.9
BARLOWORLD	5.7
STANDARD BANK	5.7
CLICKS	5.5
SHOPRITE	4.9

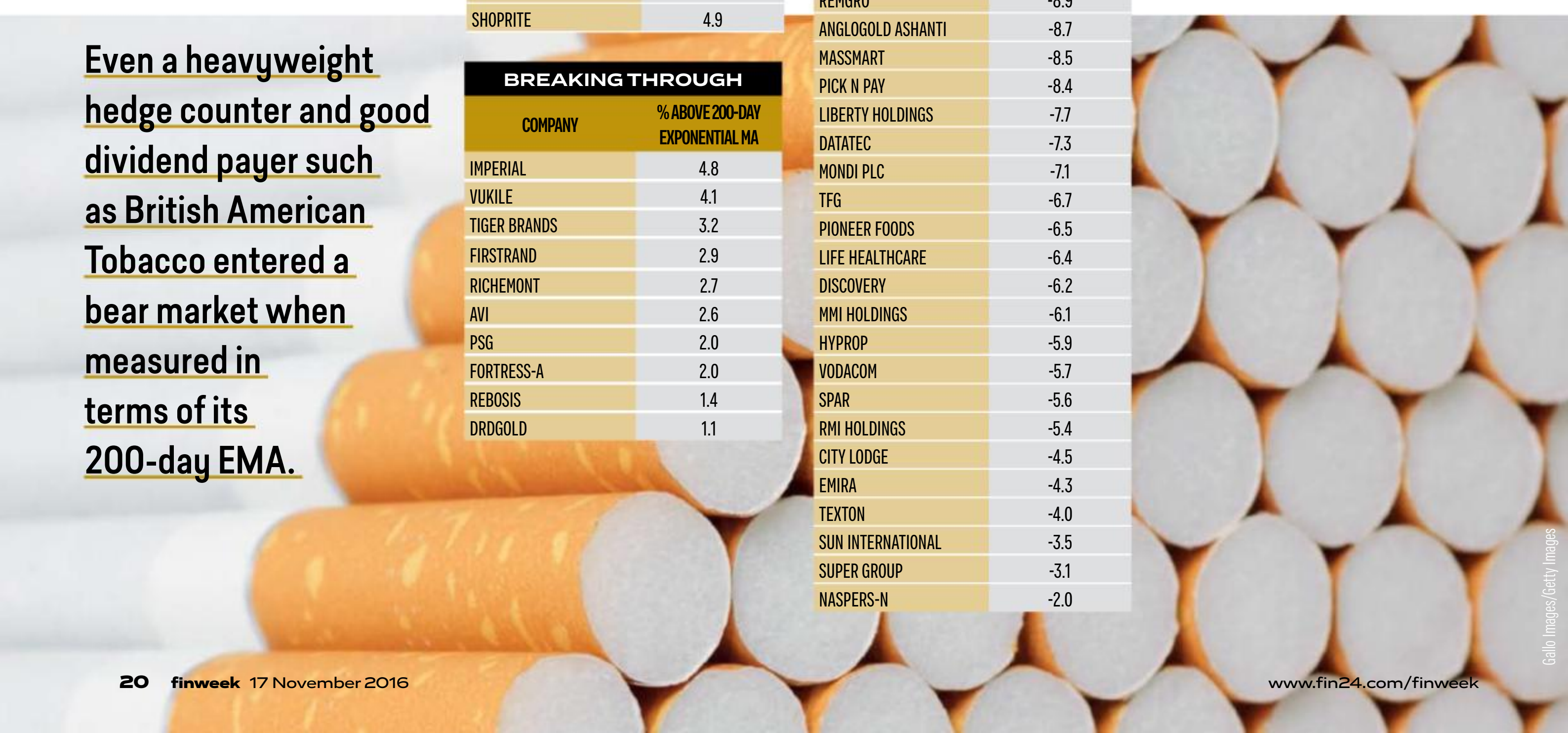
WEAKEST SHARES

COMPANY	% BELOW 200-DAY EXPONENTIAL MA
PPC	-42.2
LONMIN	-27.9
CAPCO	-23.9
ITU PLC	-22.0
TRUWORTHS	-21.6
M&R HOLDINGS	-20.6
CHOPPIES	-19.3
LEWIS	-19.3
MPACT	-17.0
MTN	-15.9
SIBANYE	-15.7
WOOLIES	-15.4
OLD MUTUAL	-14.8
REINET	-14.6
INVESTEC PLC	-12.5
GRINDROD	-12.4
RBPLAT	-12.4
ASPEN	-12.3
GOLD FIELDS	-11.7
BRITISH AMERICAN TOBACCO	-11.1
NAMPAK	-11.0
RESILIENT	-10.7
FORTRESS-B	-10.6
SASOL	-10.2
RCL	-10.0
AMPLATS	-9.1
REMGRO	-8.9
ANGLOGOLD ASHANTI	-8.7
MASSMART	-8.5
PICK N PAY	-8.4
LIBERTY HOLDINGS	-7.7
DATATEC	-7.3
MONDI PLC	-7.1
TFG	-6.7
PIONEER FOODS	-6.5
LIFE HEALTHCARE	-6.4
DISCOVERY	-6.2
MMI HOLDINGS	-6.1
HYPROP	-5.9
VODACOM	-5.7
SPAR	-5.6
RMI HOLDINGS	-5.4
CITY LODGE	-4.5
EMIRA	-4.3
TEXTON	-4.0
SUN INTERNATIONAL	-3.5
SUPER GROUP	-3.1
NASPERS-N	-2.0

BREAKING THROUGH

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
IMPERIAL	4.8
VUKILE	4.1
TIGER BRANDS	3.2
FIRSTRAND	2.9
RICHEMONT	2.7
AVI	2.6
PSG	2.0
FORTRESS-A	2.0
REBOSIS	1.4
DRDGOLD	1.1

Even a heavyweight hedge counter and good dividend payer such as British American Tobacco entered a bear market when measured in terms of its 200-day EMA.



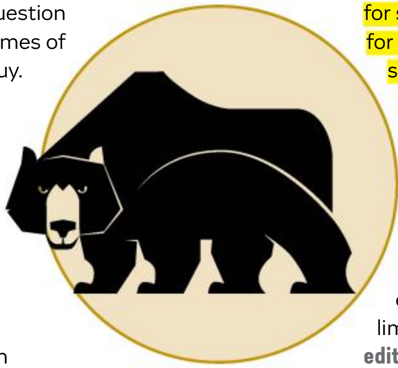
Gallo Images/Getty Images

> **There is never certainty when the bear will strike, but the fact that he will strike at some time or other is certain.**

the continuous political shocks, the threatening downgrading of South Africa and the current uncertainty on Wall Street, the world's leading bourse, should not be underestimated. In the past, the trend was that Wall Street seldom experienced a bear market in the year of a presidential election. The bear market to correct overvaluations usually happens during the first year or two of office of a new president. There is never certainty when the bear will strike, but the fact that he will strike at some time or other is certain.

It is also a given that a bear market creates opportunities for bargains because overvaluations are corrected. The price-to-earnings ratio of the JSE's All Share Index is, for example, more than 20 compared to a long-term average of 14. The question confronting investors in times of bear markets is what to buy. From a technical point of view, a good beginning is the table of the strongest shares. It shows where informed investors are prepared to buy.

Another interesting technique is that used by the late Michael G. Zahorchak, once chairman of the Foundation for the Study of Cycles in the US. His research showed that during bear markets one must wait for shares to bottom out and for large indexes to show early signs of recovery. Then invest in those shares you like if their mid-term averages (he preferred 15 weeks) lie above the long-term average. This is where informed market players invest their money and you can expect good profits with limited risk. ■



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*Based on the shares with the 110 biggest market caps.

By Rupert Giessing

SAVING

#WhatIfFeesDon'tFall?

We don't know if or when tertiary education fees will be scrapped. For now, the best we can do is plan as well as we can.

Some might find the timing of this article ironic considering developments around the #FeesMustFall movement. But whether tertiary education fees will fall or not, and in the absence of a crystal ball to predict the future, the best we can do is plan and be prepared.

Tertiary education might be free in future, but of what quality will it be? Will its qualifications be recognised overseas? Or you might consider sending your child to an overseas institution – inevitably this will be expensive.

South Africans are very bad at saving for retirement, but it doesn't end there: we are bad at saving, period. This includes a lack of saving for our children's future education needs. According to figures from the 2015 *Old Mutual Savings and Investment Monitor*, 60% of those surveyed said they don't save for their children's education, and 54% of parents said they are not aware of the future costs of education.

This in itself represents a problem, because while the long-term average inflation rate hovers at around 6% a year, the education inflation rate is closer to 9%. Education inflation constantly outstrips general inflation, and if you understand the power of compounding, you will realise that it's a significant difference.

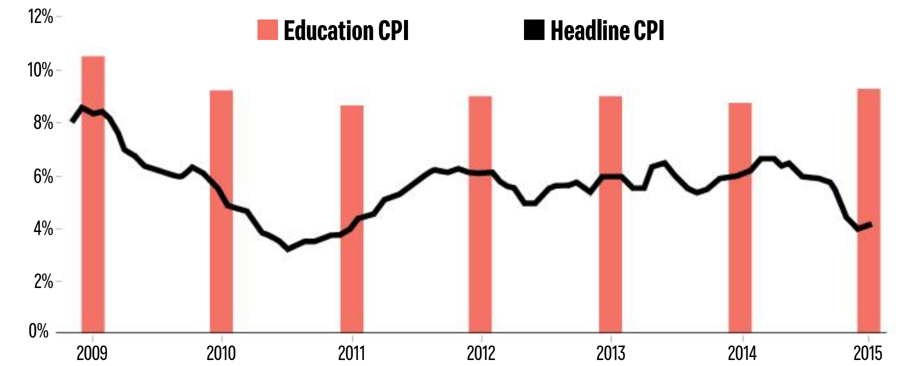
According to an article on businesstech.co.za, it costs between R29 000 to R62 500 per year for a BCom degree and R30 600 to R64 500 for a BSc degree, depending on the university.

Of course, living expenses also have to be taken into account. A Google search for living costs for a student at the University of Cape Town (UCT) reveals that you can add approximately R130 000 a year for rent, food, transport, books, etc.

You will therefore need between R180 000 to R200 000 a year in today's money if your child also needs accommodation in order to study a BCom Honours degree at UCT.

So, if your child is now five years old and you haven't started saving yet, you will have to start by putting away approximately R4 400 a month (increasing at 10% a year) from now until the child is 18 to reach the goal of R180 000 a year for four years of study. This equates to a lump sum of R2.5m in 13 years' time to cover all expenses (see right).

THE RISING COST OF EDUCATION
EDUCATION CPI COMPARED WITH HEADLINE CPI (ANNUAL RATE OF CHANGE)



SOURCE: Statistics SA

The costs highlighted here illustrate why it is so important to start saving for education as early as possible, but also to save correctly. As mentioned, education inflation averages 9% a year, so simply putting money away into a savings account won't be sufficient. Education savings, just like retirement savings, need exposure to higher growth asset classes like equities and listed property over the long term in order to meet its objective.

COSTS FOR A FOUR-YEAR BCOM (PLUS HONS) DEGREE AT UCT:

Starting capital	R 0
Current annual cost	R 180 000
Current age	5
University starting age	18
Term (years to commence)	13
Duration (years of education)	4
Goal inflation rate	9%
Illustrative investment growth rate	10%
Annual increase in savings	10%
Lump sum required (Future value)	R 2 523 657.60
Lump sum required (Present value)	R 823 163.22
Monthly savings required	**R 4 432.64**

It is also important to remember that the time horizon for education savings is much shorter than saving for retirement, so you will need to start saving as early as possible. Exposure to the more risky asset classes like equity and listed property will also have to be gradually reduced the closer you get to the time that your child is going to university in order to avoid possible capital losses without sufficient time for recovery.

At this point you might be wondering what the best savings vehicle is to use in order to save for your child's tertiary education. With the launch of tax-free savings accounts last year, you can save up to R30 000 a year, and R500 000 over a lifetime, and all growth on the investment is tax free. This means there is no capital gains tax, and also no tax on dividends and interest, adding substantially to the overall investment returns.

A tax-free savings account giving you exposure to collective investment schemes with access to equities and listed property, in your child's name, is a great way of starting to save for your children's tertiary education needs. Just be aware of the R500 000 lifetime contribution limit. When it's been reached, your children will not be able to contribute in their own name in future.

You will therefore need between R180 000 to
R200 000
per year in today's money if your child also needs accommodation in order to study a BCom Honours degree at UCT.

And if after reading this you feel that you can't afford your child's future tertiary education, just remember that with proper financial planning it is possible – even if fees don't fall. ■

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Rupert Giessing is a director at Vista Wealth Management, a representative under supervision of Accredinet Financial Solutions.

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
A V I	S Crutchley	1 November	Exercise Options	207,160	4549	9,423,708	2 November
A V I	S Naidoo	1 November	Exercise Options	6,078	5850	355,563	2 November
A V I	S Naidoo	1 November	Sell	6,078	9500	577,410	2 November
ACCENT	PS Dayah	3 November	Sell	615,000	85	522,750	4 November
ACCENT	MM du Preez	4 November	Purchase	900,000	85	765,000	4 November
ACCENT	MM du Preez	3 November	Purchase	616,895	85	524,360	4 November
ACCENT	DE Platt	4 November	Sell	900,000	85	765,000	4 November
ADVANC	CA Grillenberger	4 November	Purchase	128,462	150	192,693	7 November
ADVANC	CA Grillenberger	3 November	Purchase	112,955	150	169,432	7 November
ADVANC	CA Grillenberger	2 November	Purchase	39,900	150	59,850	7 November
AFRIMAT	F du Toit	7 November	Sell	300,000	2750	8,250,000	8 November
ANCHOR	O Khan	7 November	Purchase	33,000	995	328,350	9 November
ASPEN	MG Attridge	1 November	Exercise Options	8,000	30497	2,439,760	2 November
ASPEN	SB Saad	1 November	Exercise Options	9,675	30497	2,950,584	2 November
ASPEN	R Verster	1 November	Exercise Options	1,443	30497	440,071	2 November
ASPEN	R Verster	1 November	Sell	603	29160	175,834	2 November
ASPEN	R Verster	2 November	Sell	840	29100	244,440	3 November
BIDCORP	BL Berson	31 October	Purchase	14,700	23773	3,494,631	2 November
BIDCORP	DE Cleasby	2 November	Purchase	2,500	23535	588,375	4 November
BIDVEST	LP Ralphs	30 October	Exercise Options	148,743	10854	16,144,565	8 November
CAPREG	J Clare	28 October	Purchase	14,576	6158	897,590	1 November
CAPREG	H Scott-Barrett	28 October	Purchase	37,461	6158	2,306,848	1 November
CAPITEC	R Stassen	1 November	Sell	100,000	68336	68,336,000	4 November
CONDUIT	B Scott	2 November	Purchase	14,000	260	36,400	4 November
CONDUIT	R Xaba	4 November	Purchase	11,500	259	29,785	8 November
ECSPONENT	TP Gregory	31 October	Purchase	181,258	15	27,188	2 November
ECSPONENT	B Shanahan	31 October	Purchase	38,386	15	5,757	2 November
FAMBRANDS	JL Halamandres	31 October	Sell	5,000	15721	786,050	2 November
FAMBRANDS	JL Halamandres	1 November	Sell	8,000	15820	1,265,600	2 November
GAIA INFRAST	PB Schabort	1 November	Purchase	9,000	844	75,960	3 November
GAIA INFRAST	PB Schabort	31 October	Purchase	344	840	2,889	8 November
GAIA INFRAST	PB Schabort	8 November	Purchase	10,000	840	84,000	9 November
IMPERIAL	MV Moosa	31 October	Purchase	23,468	1692	397,078	2 November
JASCO	MS Bawa	28 October	Purchase	19,492	85	16,568	4 November
JASCO	MS Bawa	31 October	Purchase	6,000	86	5,160	4 November
JASCO	MS Bawa	31 October	Purchase	55,591	89	49,475	4 November
JASCO	MS Bawa	2 November	Purchase	405,000	90	364,500	4 November
MONTAUK	BS Raynor	2 November	Purchase	95,306	1953	1,861,326	4 November
MONTAUK	BS Raynor	1 November	Purchase	28,748	1956	562,310	2 November
MONTAUK	BS Raynor	31 October	Purchase	45,946	1864	856,433	2 November
MONTAUK	BS Raynor	8 November	Purchase	10,000	2000	200,000	9 November
NUWORLD	H Savadier	28 October	Sell	1,000	3000	30,000	3 November
NUWORLD	H Savadier	2 November	Sell	306	3100	9,486	3 November
NUWORLD	H Savadier	4 November	Sell	700	3100	21,700	8 November
NUWORLD	H Savadier	7 November	Sell	2,994	3100	92,814	8 November
ONELOGIX	CV McCulloh	2 November	Purchase	41,500	310	128,650	7 November
ONELOGIX	CV McCulloh	3 November	Purchase	234,113	313	732,773	7 November
PAN AFRICAN	B Mcleod	4 November	Purchase	24,000	340	81,600	7 November
SANTOVA	AL van Zyl	1 November	Exercise Options	500,000	386	1,930,000	4 November
SASOL	SR Cornell	27 October	Purchase	13,107	$27.61	$361,884	2 November
STANDARD BANK	A Daehnke	7 November	Sell	19,000	14600	2,774,000	8 November
STANDARD BANK	MJD Ruck	3 November	Sell	5,000	14405	720,250	8 November
STANDARD BANK	MJD Ruck	7 November	Sell	15,000	14476	2,171,400	8 November

All data as at 14:00 on 9 November 2016. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Frontier	1200	139.52
Stratcorp	2	100.00
Central Rand Gold	43	26.47
Imbalie	15	25.00
Delta	118	16.83
WORST		
Spanjaard	294	-20.33
Ferrum	5	-16.67
Ah-Vest	29	-14.71
Middle East Diamond	13	-13.33
Sabvest	3000	-12.79

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	50 700.69	0.63
JSE FINANCIAL 15	14 760.35	1.75
JSE INDUSTRIAL 25	65 793.99	0.56
JSE SA LISTED PROPERTY	630.37	0.11
JSE SA RESOURCES	17 850.29	0.01
JSE TOP 40	44 199.79	0.83
CAC 40	447 689	1.41
DAXX	1 048 232	1.07
FTSE 100	684 313	-0.03
HANG SENG	2 290 947	0.43
NASDAQ COMPOSITE	519 348	1.72
NIKKEI 225	1 717 138	0.21

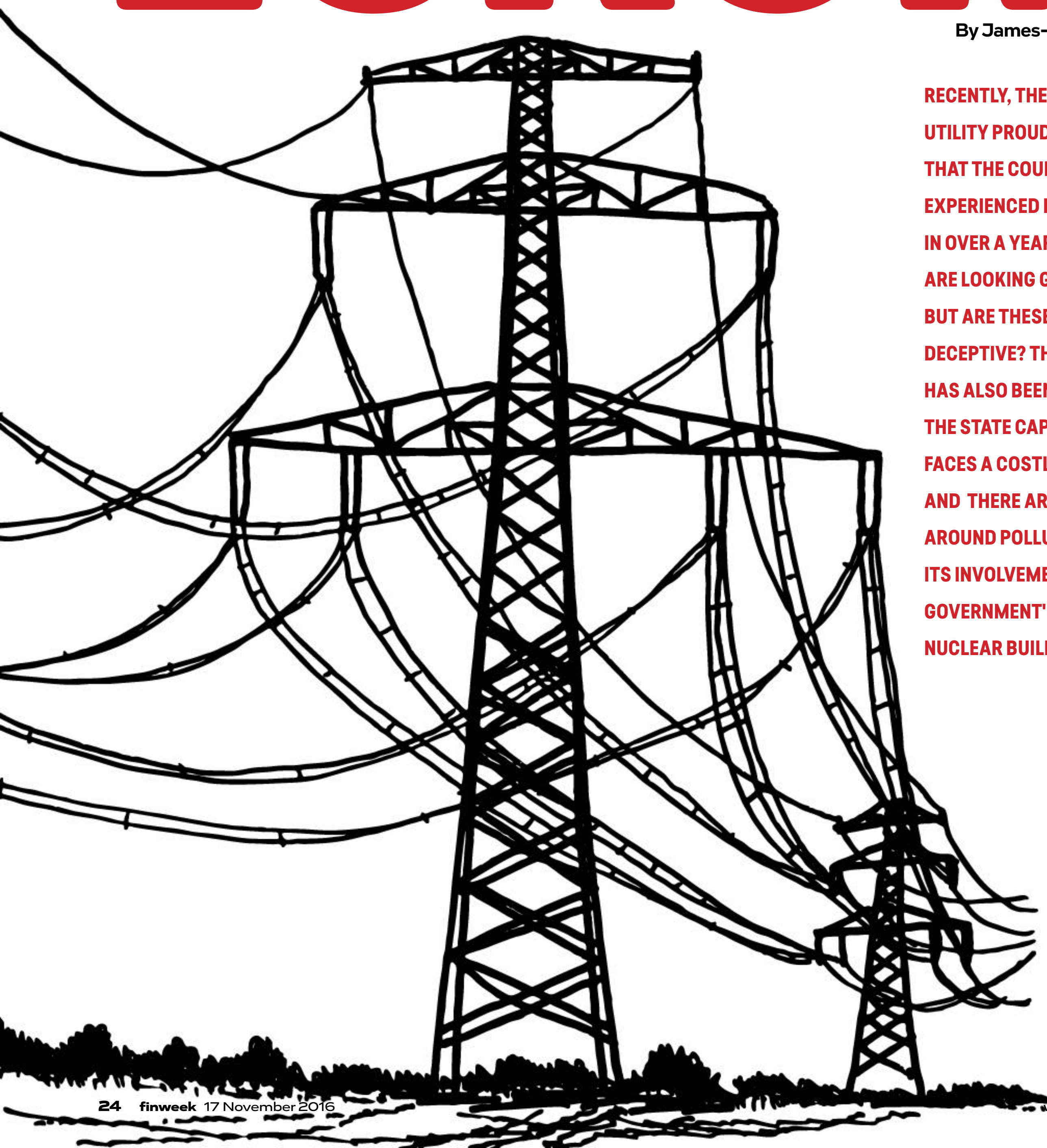
*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	13.1
REBOSIS	127	11.0
EMIRA	143	9.9
ACCPROP	58	8.8
RI PLC	58	8.7
REDEFINE	94	8.4
FORTRESS-A	136	8.1
LEWIS	290	8.0
SA CORPORATE	43	7.8
MMI HOLDINGS	175	7.7

THE STATE OF ESKOM

By James-Brent Styan



RECENTLY, THE STATE POWER UTILITY PROUDLY ANNOUNCED THAT THE COUNTRY HASN'T EXPERIENCED LOAD-SHEDDING IN OVER A YEAR. ITS FINANCES ARE LOOKING GREAT TOO. BUT ARE THESE FIGURES DECEPTIVE? THE PARASTATAL HAS ALSO BEEN DRAWN INTO THE STATE CAPTURE AFFAIR, FACES A COSTLY RETROFIT AND THERE ARE QUESTIONS AROUND POLLUTION AND ITS INVOLVEMENT WITH GOVERNMENT'S PROSPECTIVE NUCLEAR BUILD PROGRAMME.

Gallo Images/Getty Images

Eskom's Medupi power plant

Let's start at the beginning.

In 1996 Eskom warned that South Africa was running out of electricity. The utility laid out predictions for the country's future energy demand and explained why new power stations were needed. It then asked for approval for a new build programme and was turned down.

In 1998 the government was warned again that the country was running out of electricity. This time the warning came in the form of the department of energy's *White Paper on the Energy Policy of South Africa.*

In the White Paper, then minister of minerals and energy affairs Penuell Maduna stated: "Eskom's present generation capacity surplus will be fully utilised by 2007." The White Paper warned that long lead times to build power stations meant strategies were needed to be put in place to meet the needs of the country's growing economy.

This warning too led to nothing and in November 2007, as predicted, SA ran out of electricity.

That November Eskom implemented load-shedding because due to rapidly falling reserve margins, the electricity network finally ran out of space and options. Power stations had been run into the ground to keep the economy – which had been booming – running. Load-shedding was implemented nine times in November and December 2007 and led to massive nationwide load-shedding on 24 January 2008.

What followed was years of uncertainty, leadership turmoil at Eskom and long periods of continued load-shedding that acted as a handbrake to an already-slowing economy. It's been estimated that load-shedding cost the economy around R2bn a day.

The good news was that Eskom and government started ramping up the expansion of SA's power-generation capacity. This saw the roll-out of new projects like the mega coal-fired power stations Medupi and Kusile and a pumped storage scheme project called Ingula. These projects had been in the pipeline, but were now shoved to the front of the queue.

In addition, a huge Independent Power Producer (IPP) programme with a focus on renewable energy (RE) was kicked off. Government was adamant that the power shortages had to be addressed quickly. Because of the huge urgency the new build programme was embarked upon without full planning having been completed. There was no complete funding plan in place for the mega projects. As a result, Eskom made a loss of R9.1bn in 2009 and saw its balance sheet weaken significantly over the period.

Penuell Maduna
Former minister of minerals and energy affairs

It's been estimated that load-shedding cost the economy around
R2bn
a day.

Fast-forward seven years to 2016 and on 3 November Eskom CEO Brian Molefe proudly announced the country has been load-shedding free for 450 days. Eskom also reported a huge profit of R9.3bn for its interim period to 30 September 2016. This is quite a turnaround and something to celebrate indeed.

It certainly seems like Eskom has turned the corner on the electricity supply situation.

But has it?

The good news (for Eskom anyway)

It is worth repeating.

South Africa has gone 450 days without load-shedding. This has been achieved mainly thanks to two things: The most important is the improvement of Eskom's generation plant performance, which is measured by the equivalent availability factor (EAF). At the height of load-shedding, Eskom's generators were breaking down rapidly and were below 70% in terms of reliability. In September 2015 EAF was still at 71.2%.

Over the past year, the EAF has improved to 78.4% by September 2016.

That is a great achievement and speaks to increased and improved maintenance and better management of the system. As a result you also find that Eskom's unplanned breakdowns reduced from 14.8% in September 2015 to 9.73%.

The second issue that helped the parastatal avoid load-shedding is the country's weakening economy.

A slowing domestic economy simply translates to a lower demand for electricity and the data clearly proves this theory.

Between September 2012 and

Eskom also reported a huge profit of
R9.3bn
for its interim period to 30 September 2016.

September 2015, Eskom's electricity output shrunk from 110 700 Gigawatt hours (GWh) to 107 300GWh. Sales to industrial customers in SA are in a downward spiral and plunged by 6.2% in the six months to September 2016. Sales to the railway sector (primarily Transnet, which freights commodities to the coast for export) fell by 7.9% for the same period.

In its 2016 annual report, Eskom states that electricity sales in key segments, such as industrial, mining and commercial sales, are either at or nearing a 15-year low. In fact, the utility has enthusiastically appealed to its large industrial and commercial customers to increase their demand for energy in order to take advantage of the supply windfall. The decrease in electricity usage is of course terrible news for SA as it indicates that the economy is not growing and the very areas where most jobs could be created – industry and mines for export – are slowing down most.

The good news about this slowdown is that it has provided Eskom with breathing room on its network to do better maintenance. And it certainly seems like the parastatal has used the time wisely.

Despite these drops, Eskom insists business is doing well and revenue is growing rapidly. Well, revenue has indeed grown from R87.8bn (six months to 30 September 2015) to R97bn this year. In 2014 for the same period the figure was R71.8bn, which means Eskom's revenue has jumped by R25bn in 24 months. While this excites the power utility, it is unfortunately mostly as a result of higher electricity tariffs – something most consumers are not happy with.

The economy is not growing and the very areas where most jobs could be created – industry and mines for export – are slowing down most.

Tariffs

Electricity tariffs have skyrocketed in recent years, mainly because Eskom needs money to help fund its huge build programme. The build programme that was started without a full funding plan in place has seen costs spiral out of control and delays of years creeping in.

In Eskom's tariff application for April 2013 until the end of March 2018, the parastatal applied for a 16% price increase a year for a period of five years. This requested increase translated into revenues of over R1tr for Eskom over the period. The National Energy Regulator (Nersa) approved an 8% average increase a year for the five years. What this means in rands and cents is that the average electricity price will increase from around 65.51c/kWh in 2013/14 to 89.13c/kWh in 2018. That excludes the additional amounts levied by municipal councils.

In March 2009 Eskom's average selling price for electricity was 24c/kWh.

As a further illustration, between 1999 and 2007 electricity tariffs increased by 38% in real terms, according to the Parliamentary Budget Office. Between 2007 and 2015 tariffs increased by around 170% in real terms.

The impact of these tariff increases has been severe and the increased debt owed to Eskom is evidence of that. Municipalities, which provide most consumers with electricity, buy from Eskom and owed the parastatal R15.4bn as at 30 September 2016 (R11.6bn in 2015).

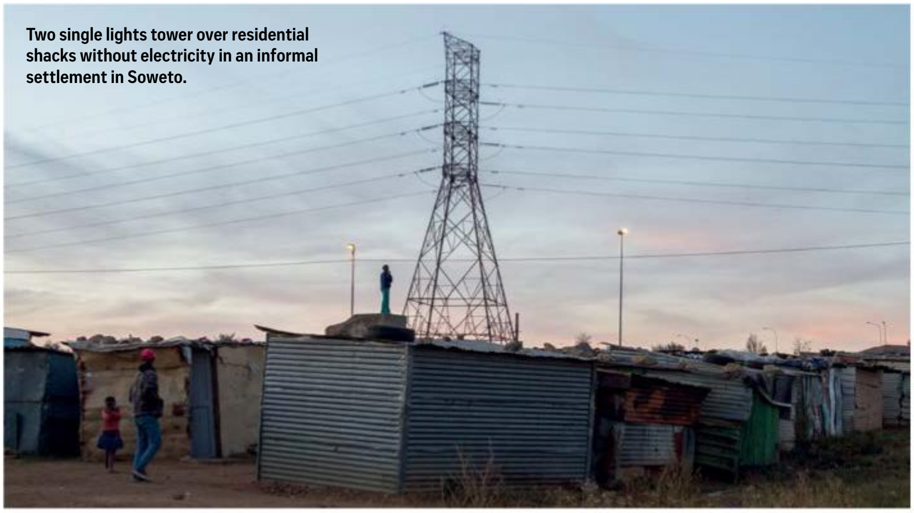
An interesting anomaly I haven't seen explained yet, is the debt owed by Soweto, one of the largest debtors Eskom has. In the 2015 interim period, the total debt owed was shown in the interim statements to be R9.7bn. A year later the amount shown in the interim results was R5.1bn – a difference of R4.6bn. It remains unclear whether or not an amount has been written off. What Eskom has pointed out is that repayment levels from Soweto have worsened from 18% to 14% over the interim period. That means only 14% of households in Soweto pay Eskom for electricity.

For all consumers, more pain is on the way with further increases on the way. Eskom is expected to submit a new tariff application by 1 April 2017 that will determine how big the new increases will be that consumers will need to face in the

Between 2007 and 2015 tariffs increased by around

170%

in real terms.



Two single lights tower over residential shacks without electricity in an informal settlement in Soweto.

Gallo Images/Getty Images

periods following 2018. Given the utility's interest in nuclear build, consumers may once again be in for quite a shock.

Exports are booming

One part of the Eskom business that is doing really well, is exports to neighbouring countries. At the height of load-shedding Eskom was cutting power to countries like Zimbabwe, Namibia, Zambia and Botswana too. Since the local economy's demand plunged, however, Eskom has now been able to sell an increasing amount of electricity over the border.

In the year to 31 March 2016 Eskom announced its international sales had increased 12.2%. In the interim period to 30 September international sales shot up further by 31.6%.

Two major operational expense problems

At the moment, Eskom is struggling with two major operational cost problems. The first is the cost of primary energy, and in a word – coal. Over the past six years Eskom's coal cost has been increasing at 17% a year on average. In 2015 it was estimated that the parastatal's primary energy cost is set to increase by up to 65% by 2020. In 2014 Eskom spent R69.8bn on coal. Twelve years before, in 2002, Eskom's coal cost was R6.1bn. Supplying Eskom with coal is clearly a lucrative business.

The second challenge is payments to Independent Power Producers (IPPs) for electricity they generate. These payments are non-negotiable and regulated by strict power purchase agreements. The IPP programme with its focus primarily on renewable power is a world-class project, providing vital independently funded generation capacity to the network.

The problem is that by law, Eskom is meant to pay for the power the IPPs produce from its own budget. In the current environment – one where the network suddenly has excess capacity, Eskom is increasingly unhappy with the continued rollout of IPP projects.

The power utility claims the IPPs are very expensive and the electricity they provide can actually be supplied by Eskom itself for far less. In 2014 Eskom bought 3 671gWh of electricity from IPPs for R3.2bn at an average cost of 88c/kWh. This increased to 9 033gWh bought at an average cost of 171c/kWh in the 2016 financial year. Meanwhile, Eskom's total average cost per kilowatt hour for electricity it generated from its own sources for the year 2016 was 73c/kWh, nearly R1 cheaper than the price Eskom must pay IPPs.

Eskom burnt through 1.44 litres of water per kilowatt hour it generated.

At the interim results presentation, Molefe stated that over the past few months the cost of Eskom's electricity, which is a mixed average cost from all sources of generation, was 83c/kWh. He stated that the power Eskom is buying from IPPs currently costs 218c/kWh. Eskom paid IPPs R8.6bn in the six months.

Meanwhile, Eskom's total average cost per kilowatt hour for electricity it generated from its own sources for the year 2016 was 73c/kWh, nearly R1 cheaper than the price Eskom must pay IPPs.

So clearly Eskom's concerns are not made up.

However, the country can also not afford to stifle the growth in the independent power sector. One of the major problems experienced with load-shedding was the lack of alternative power-generation when Eskom ran into trouble.

It's clear that the development of the independent power sector is vital in order to ensure the sustainability of SA's energy future. In addition, Eskom is currently saving billions on diesel costs thanks to the reduced need to use turbines. Diesel cost for the past six months was lower by R6.4bn. What Eskom is losing on the swings, it is gaining on the roundabouts.

Supplying Eskom with coal is clearly a lucrative business.

Eskom's unspoken challenges

There are a number of things the power utility never talks about. One of these is water. Annually extreme weather events like drought and flooding are on the increase across the globe, also in South Africa as climate change makes its presence felt. In 2005/6 Eskom used 292 000 Megalitres (Ml) for electricity generation. In the financial year 2016 Eskom used 314 685Ml water.

That means Eskom burnt through 1.44 litres of water per kilowatt hour it generated.

New coal-fired plants Medupi and Kusile will be heavily water intensive once they come fully online. The mega six-unit power plant Medupi will need roughly 7.8m litres of

fresh water a day for each of its six units.

Emissions and minimum emission standards

Water isn't the only major concern when it comes to the environment. Emissions and ash are other big problems for Eskom. In 2016 the parastatal's power plants produced 32.6m tons of ash from the 115m tons of coal it consumed. In addition, Eskom's plants released 215.6m tons of CO_2 emissions and 78 kilotons of particulates emissions. That's a lot of waste hitting the environment annually.

Eskom reached a deal with the authorities with regard to minimum emission standards whereby 11 of its biggest polluters still don't need to comply with the agreed minimum emission standards (MES). The condition was tagged onto the decision that Eskom must develop an offset programme to reduce emissions in its value chain. This condition calls on the company to execute an emissions reduction programme at nine of its major power stations by 2025. This retrofit will cost an estimated R134bn, money Eskom admits it does not have.

The power utility admits in its 2015 annual report that there is a "high risk" that the retrofit plan will be delayed: "The requirements remain an onerous challenge for us to meet. If we fail to execute as planned we will be non-compliant with emission licences, an offence that could result in criminal prosecution and having our licence to operate being revoked."

The reality of SA's environmental challenges and targets relating to climate change mitigation is perhaps the main reason government and Eskom is so insistent on nuclear power as a new baseload power-generation source. To address climate change, Eskom must ensure electricity supply not only increases into the future, but that existing fossil fuel plants increasingly get replaced with something that provides guaranteed power that is more climate-change friendly.

State capture allegations

A day before the interim results presentation, another document hit the informationsphere: the Public Protector's report following an investigation into what has become known as state capture. The former Public Protector Thuli Madonsela had investigated President Jacob Zuma, various government officials and their business dealings with the Gupta family. One major surprise from the 355 page report was the information on the Eskom board and Brian Molefe himself.

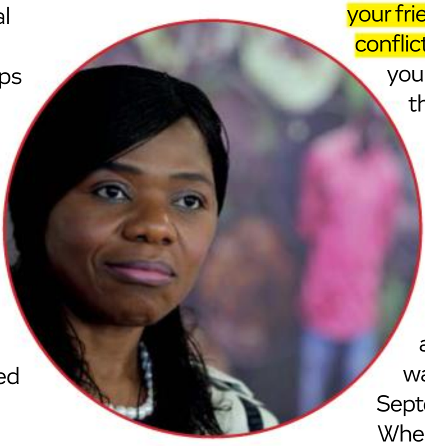
In fact, Molefe was one of the most-quoted names. Among others, the report quotes Atul Gupta as stating that Molefe is his "very good friend" and often visits his home in Saxonwold. There is of course nothing wrong with being friends with any family, including the Guptas.

A problem, however, does arise when there is a conflict of interest. And when you run the biggest coal user in the country and your friend is an investor in coal mining…the conflict doesn't get any bigger. So what do you do when this conflict exists? Well, the report notes that Molefe and Ajay Gupta called each other 58 times between August 2015 and March 2016. It also finds that Molefe can be physically placed in the Saxonwold area (where the Gupta family lives) at least once a week between 5 August and 17 November 2015. Molefe was appointed Eskom CEO in September 2015.

When Molefe was asked about his presence in Saxonwold, he claimed that he'd been visiting a shebeen in the area. This was later retracted and clarified. This also doesn't mean anything, of course, it

Brian Molefe
CEO of Eskom

Eskom reached a deal with the authorities with regard to minimum emission standards whereby 11 of Eskom's biggest polluters still don't need to comply with the agreed MES.



Thuli Madonsela
Former Public Protector

The report notes that Molefe and Ajay Gupta called each other
58
times between August 2015 and March 2016.

Gallo Images/Getty Images/Reuters

simply asks the question about potential conflict of interest.

Then the report makes some alarming points about a Gupta-linked coal mining company called Tegeta, which bought a coal mine that supplies coal to Eskom with a R600m loan. This loan, which Eskom says was a prepayment for future coal deliveries, was provided by Eskom and the decision to provide Tegeta with this loan was made by Eskom board members on 11 April 2016. At 21:00 at night. Following the refusal by multiple banks to provide the funding (per reporting by amaBhungane).

Tegeta supplies around 7% of all Eskom's coal. Which is a lot.

The report on state capture notes that the Eskom board has "absolute responsibility for the performance of the SOE [state-owned enterprise] and is fully accountable for the performance of the SOE. The Board of Eskom appointed in December 2014 consisted predominately of individuals with direct and indirect business or personal relations with Mr D. [Duduzane] Zuma, the Gupta family and their related associates."

The report adds that "it is apparent that at the timing of the prepayment loan to Tegeta on 11 April, it appears improbable that some, if not all, of the Eskom board who approved the payment, had no knowledge of the true nature of the payment".

It states that: "It appears that the conduct of the Eskom board was solely to the benefit of Tegeta in awarding contracts to them and thus it appears to be inconsistent with the PFMA [Public Finance Management Act]."

These matters raised by the Public Protector are sure to be challenged by Eskom and/or the individuals named. In Molefe's case, after originally claiming he had not been afforded the opportunity to respond to the Public Protector's concerns over his possible conflict of interest, he later conceded that he had responded to written questions posed to him by her office.

He also confirmed at a briefing on 4 November that he would seek legal advice over those findings that implicated him in possible impropriety. The outcome of this will be watched with interest. The business of Eskom is so integral to the country's future and the budgets the company works with are so large, the people in charge should be above reproach.

Of that there can be no question. ■

Tegeta supplies around

7%

of all Eskom's coal. Which is a lot.

LOOKING FORWARD – SOUTH AFRICA'S ELECTRICITY FUTURE

The next 10 years will be critical for the South African economy and the primary goals of lifting people out of poverty, addressing inequality and creating employment. Integral to this will be electricity and environmental considerations. Addressing both of these matters is dependent on extensive long-term capital decisions and investment, and thorough planning and key decision-making is therefore clearly non-negotiable.

It appears, however, that this is not happening. Perhaps the reason is that the pressure is off, with Eskom forecasting surplus capacity in South Africa for the next five years as plant performance continues to recover, additional capacity is commissioned and more IPPs get connected. The country's economic indicators are also not showing much expected growth. So, a sense of lethargy has creeped in and nowhere is this more evident than in planning and policy.

The most immediate concern is that there is still no updated official energy plan for SA. The Integrated Resource Plan (IRP2010) was released in 2011 and is hopelessly outdated, yet remains the chief official policy plan for electricity. This is the document calling for 9 600MW of nuclear power and it's the document investors and Eskom must rely on when planning and making investment decisions.

It is inexcusable that this vital policy has not been updated yet. Especially when the National Energy Act (2008) states that the minister (of energy) must annually publish an analysis reviewing energy supply and demand for the previous year, forecasting energy supply and demand for the next 20 years, and analysis of plausible energy scenarios of what the future energy supply and demand landscape could look like under different assumptions.

Imagine the clarity decision-makers would have had if this critical information was actually available. Instead, investors, government, Eskom and armchair experts are left engaging one another's wildly varying opinions in the media.

While this is often quite fun to watch, it's clear that without proper and clear guidance we end up in the same place we started out from.

And that is terrifying. ■

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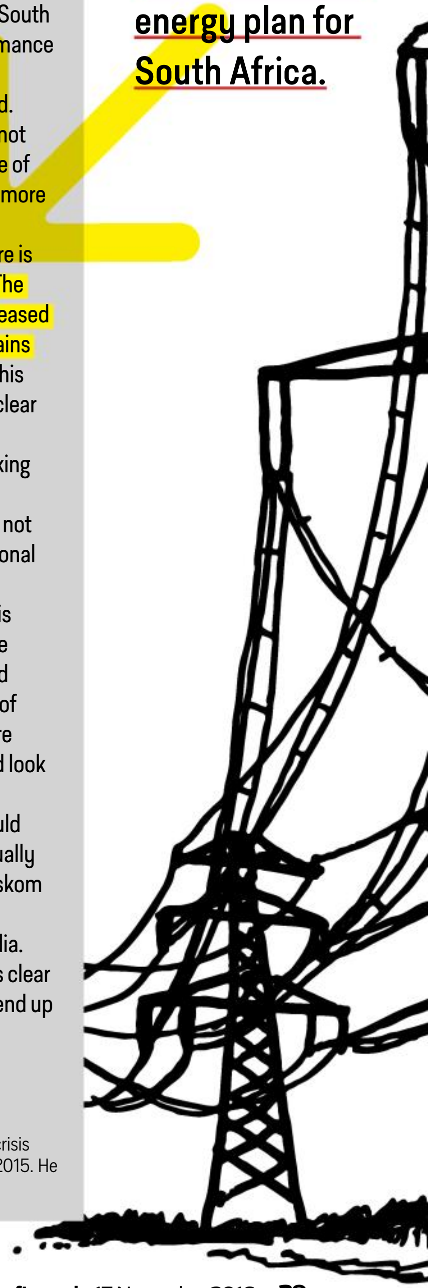
James-Brent Styan authored a book on the energy crisis called *Blackout, The Eskom Crisis*. It was published in 2015. He writes in his personal capacity.

The most immediate concern is that there is still no updated official energy plan for South Africa.



Driverless cars – such as this Google car – use a robotic brain that combines data from various sources to make sense of a changing environment.

ARTIFICIAL FORCE FOR GOOD

Elon Musk thinks artificial intelligence (AI) might destroy humankind. But in South Africa entrepreneurs are working with AI that could be a great force for good.

By Jon Pienaar

In an interview with Bloomberg two years ago, Elon Musk, South African-born Tesla CEO and billionaire founder of SpaceX, likened building artificial intelligence to "summoning the demon". And globally acclaimed physicist Stephen Hawking has warned that it could "spell the end of the human race".

But futurist, inventor and computer scientist Ray Kurzweil says the potential benefits of AI far outstrip the perils. In *Time* magazine, Kurzweil writes: "We have a moral imperative to realize this promise while controlling the peril. It won't be the first time we've succeeded in doing this."

AI isn't just the stuff of tomorrow, or science fiction anymore – it is likely you've already interacted with smart machines. If you've used Siri on iPhone, or OK Google on Android, then you've interacted with a learning machine. Similarly, spam filters are intelligent software that sorts through mail to figure out what is junk. These programs learn from user behaviour all the time.

Ray Kurzweil
Futurist, inventor and computer scientist

It is a fundamental revolution for humankind. As Andrew Ng, chief scientist at Chinese web giant Baidu puts it, "AI is the new electricity. Just as electricity, about a hundred years ago, transformed industry after industry, I think that AI is now in a position to have a similarly large impact on society."

ICT giants like Microsoft, Twitter, Intel, Salesforce and Apple are investing heavily in AI technology. Since 2011, according to research firm CB Insights, nearly 140 companies that have developed AI technology have been acquired as part of a race between these global corporations to own this space – 40 of these acquisitions took place in 2016.

AI is hard at work across most sectors. Financial institutions use software to monitor market movements, while security forces use machine learning in facial recognition systems that fight terrorism. In the medical field, AI

Images: supplied

examines vast datasets to factor in genomic, phenotypic and social aspects to assist doctors with making diagnoses.

Not a robot

"When you tell people you are working on AI, they assume you are building a robot that is going to take your kids to school," Dale Humby, chief technology officer at Nomanini, says with a chuckle. Humby is at the coalface of AI development in the field of embedded systems and micro-payments.

He explains that commercial machine learning works with algorithms to perform specific tasks. "Like predicting what songs you might want to listen to next on Spotify, or which movie you might next find interesting on YouTube."

Nomanini's clients are all prepaid services vendors, who sell airtime and electricity tokens directly to the public. These vendors have to purchase stock in advance, so the Nomanini system can advise them how much to purchase at certain times of the month.

"We also advise them where the hotspots are, or where they should stand to sell the most airtime or electricity, based on learning where they live," says Humby.

AI enables Nomanini to make personalised decisions for these vendors based on large sets of data, explains Humby. "It's only through using computers and machine learning that we can do this in practice. There is not enough time or money to have a whole team of analysts do this manually."

Computers deciding for you

Humby contrasts social-media-mediated purchasing to the typical supermarket experience, where one is presented with a specific set of items to purchase, reinforced by advertising and product placement. "When you go on your Facebook, it is incredibly personalised," he says, explaining that the Facebook back-end computers are making decisions "based on things you are going to find interesting or useful".

"For business this helps with client engagement – particularly if you are a consumer-based web store like takealot.com."

Humby says that if the AI engine shows you things that are specific to you, there is a higher likelihood that you are going to buy it.

"It knows your demographic – for example, if you are a new mom it presents you with baby merchandise and information, rather than chainsaws." The more data an AI system has about customers, the better it can predict their purchasing needs. "Generally you are predicting what someone's thinking, and suggesting what they might need before they remember that they need it," he explains.

In the mathematical world of investing, where fast, accurate analysis is key, AI is making great progress. Magda Wierzycka is the CEO of Sygnia Asset Management, which launched a "RoboAdvisor" in May this year. The RoboAdvisor is a computer program that was installed as a back-end to a website that asks clients to input a range of information about themselves. It then provides investment advice based on an ever-fluctuating financial environment.

"Financial planning is quantitative in nature, so there shouldn't be any emotive judgment applied to the information given to you," says Wierzycka. "It should be a quantitative mathematical overlay that gets supplied to the information provider that comes up with an optimal financial plan for an individual.

"Based on the client's inputs, and the financial planning model that underpins the website, the system calculates your net worth and projects what you will require in order to be able to retire without taking a cut in living standards," Wierzycka explains.

When it comes to issues like death and disability, the human touch is still needed. Incremental improvements are taking place all the time, and Wierzycka says that in 10 to

15

years, AI-based financial advisers will be the norm.

Can a RoboAdvisor do better than a human financial planner? On a basic level, Wierzycka says, it does a great job. But when it comes to issues like death and disability, the human touch is still needed. Incremental improvements are taking place all the time, and Wierzycka says that in 10 to 15 years, AI-based financial advisers will be the norm.

Wierzycka says the financial services industry is an environment most conducive to the use of AI because machine learning allows for business functions to be done faster and cheaper.

In the UK, the Financial Conduct Authority has encouraged people to make use of AI tools to save costs.

Intelligent adviser

Ryan Falkenberg, the co-founder and joint CEO of Stellenbosch-based AI start-up Clevva, and his team have been working on an AI platform

AI helps Nomanini's clients – who are all prepaid services vendors – make smarter decisions about purchasing stock and where to set up shop.

Dale Humby
Chief technology officer of Nomanini

Magda Wierzycka
CEO of Sygnia Asset Management

that is an intelligent "virtual adviser". The machine learning being developed by Clevva aims to assist people where human error or boredom is a factor that could impact on the quality of service provision.

"Our view is, how do we use AI to make people stronger or more effective, so that they still retain relevance – as opposed to excluding them entirely? How do we help companies leverage AI, but in a way that gets more out of people?" asks Falkenberg.

"Most training and knowledge management is aimed at capturing process logic or sales logic," he says. "In contact centres, this becomes formulaic." The net effect is that these systems require people to be trained to behave like robots.

But, he points out, the human brain is not good at memorising formulae and vast tracts of information, especially over the long term. Trainees use their short-term memory to pass the course, but generally only 20% of what is learnt is retained.

The solution Clevva presents enables human beings to do what they are good at – engaging with the client, and putting emotional intelligence to work.

"Innovation, creativity, human engagement – these are the types of capabilities that differentiate human beings from technology. We are on a mission to make sure human beings stay strong and relevant by enabling them with decision logic. Together humans and computers add a value that AI and computers alone would struggle to add," he explains.

AI is often seen as a threat to unskilled or undereducated people, but Falkenberg says an unskilled person who has good emotional intelligence, a great attitude and the right aptitude, can be teamed up with a decision-making machine that helps to solve customer queries or sell products, or even deliver services.

He has a high-road vision in which SA's education deficits are augmented by AI, and where people get a better shot at university and careers through supplemental machine learning.

Let's hope AI can help address SA's failings and be an engine for economic growth. ■

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Ryan Falkenberg
CEO of Clevva

"It knows your demographic – for example, if you are a new mom it presents you with baby merchandise and information, rather than chainsaws."

Satya Nadella
CEO of Microsoft

WHAT IS ARTIFICIAL INTELLIGENCE?

Alan Turing, considered the father of computer science, is credited with proposing that digital computers can simulate any process of formal reasoning. In the 1950s, this became known as the study of artificial intelligence.

The definition of AI changes depending on who you talk to, and has changed over time. There was a time when a computer capable of beating a grandmaster at chess was considered intelligent, but now the test of intelligence is how quickly (and accurately) a system can interrogate large amounts of data and provide useful outputs that have real-world applications.

Author Peter Diamandis defines AI as "the ability of a computer to understand what you're asking and then infer the best possible answer from all the available evidence". Diamandis is the co-founder of the Singularity University, an organisation that studies the effects of AI on society, and speculates about what will happen when AI surpasses human intelligence.

Modern AI systems are developed to deal with uncertain or incomplete information, using statistics and probability theories to "make guesses". When data sets are too large to crunch, AI imitates the human thinking processes to solve the problem. Another aspect of AI is machine learning, where a computer system is taught to learn from experience without being explicitly programmed to do so.

Google uses AI in a way that approximates human brain function. Called "deep neural networks", this integrated system of hardware and software works much like the neurons firing in a brain. The result is intelligent networks that analyse masses of data, identify photographs and interpret voice commands. When used in Google's search engine, the result is speed, scale and accuracy.

Several technologies that use AI are on the verge of being put into everyday use. Driverless cars use a robotic brain that combines data from cameras, radar and lidar sensors as well as GPS monitors to make sense of a changing environment. By making appropriate adjustments to allow for variables – the terrain the car is moving through as well as other vehicles and pedestrians – the car drives itself. ■

REAL ESTATE IN AFRICA

WHERE INVESTORS' MONEY IS GOING

Are global investors eager to put their money into the continent's property sectors? And is South Africa still a major destination for these funds?

By Glenda Williams

Slowing growth on the continent, due in part to the decline in commodity prices, sub-scale markets and risk perceptions are some of the factors limiting investor appetite for the property sector in sub-Saharan Africa.

"We have never seen so much liquidity in the global markets. But despite the abundance of opportunity in Africa, the money is struggling to move there. That relates to all the risks we are seeing around us. Most of that capital is very risk averse," explained Jos Tromp, executive director: Head of research Continental Europe at CBRE, speaking at the Expo Real conference in Munich in October.

CBRE

Jos Tromp
Executive director: Head of research Continental Europe at CBRE

Foreign investors perceive a risk premium to venturing into unknown markets or outside the key economies of South Africa, Nigeria and Kenya.

This is especially true, said Tromp, when political unrest is a factor, when the size of the economy doesn't allow for the scale that investors are looking for, or when there is a need to build various local organisations.

"Some see it as just not worth the effort, so in my view focus will remain on the big countries. [...] There is an abundance of opportunity but it is difficult to assess the markets if you haven't been there. That is perhaps where many foreign companies struggle with understanding Africa," said Tromp.

That lack of understanding of the 54 vastly different countries and the risk that is attached to the unknown have ensured that most of the capital has flowed into countries like Nigeria, Kenya

LAND OWNERSHIP IN AFRICA

The understanding of land ownership structures in Africa can be a challenge for foreign investors. How land is owned, whether leasehold, freehold or customary tenure, and who owns it reflect the historical background of the different countries.

"It is possible to have very secure land title in Africa where you are able to enforce your rights as a landowner," said Preston Mendenhall, head of corporate affairs at Rendeavour.

Rendeavour is the largest urban land developer in Africa. It either acquires or partners with land owners for large parcels – 1 000ha and upwards – of agricultural land within 15km to 20km of CBDs. The acquisition of communal held land can be a challenge, but can be managed, said Mendenhall.

"Local communities are perhaps one of the greatest assets and partners in a project."

Akin Olawore, principal partner at Akin Olawore & Co in Nigeria, a company that offers real estate valuation, research and management services, said: "Investors need to bear in mind that they will be in bed with the communities for a long time. And how do you manage that risk? You carry them along. If you carry them along, they will protect that investment."

Land ownership has become easier to manage, said attorney Barbara Cavallin, associate partner at Rödl & Partner, in part thanks to the establishment of local agencies and service providers that lead foreign investors through the investment requirement to land ownership.

"Bilateral Investment Treaties (BITs) also provide important warranties for foreign investors – like those against expropriation," she said. ■

and South Africa. Ironically, the biggest opportunities on paper may be lying in the second-tier growth markets.

Risks

The continent's exposure to the commodity cycle, markets that are not as mature as investors like, currency, security and land ownership risks (see box) also have a hand in discouraging investors.

Transparency inroads are being made so that "it's *not* typical business as usual", but the biggest risk for Africa, says Gikonyo Gitonga, managing director of Axis Real Estate, adviser and real estate service provider in Kenya, is corruption and lack of transparency.

Tromp says there's a checklist that investors should work through before committing to an investment on the continent:

- Proper due diligence: Look for local players who know the market in order to obtain legal and professional real estate advice.
- Undertake market research because data is often difficult to come by.
- Do a thorough risk analysis over and above that required for developed markets.

Who's doing what and where?

To a large degree, the investment market in sub-Saharan Africa is driven by institutional capital from South Africa, said Tromp. "There are also some private equity funds from the Middle East and on the occupier side the former colonial powers are quite active. The French and Portuguese are also active in the construction sector, particularly in Angola and Mozambique. But foreign parties in most of these markets are very limited.

"Investors tend to look at sub-Saharan Africa based on a kind of 'golden triangle approach', with a hub in the East, West and obviously South Africa and the smaller countries around it," explained Tromp.

> **"Kenya is one of the more mature developing markets in Africa. The economy is more stable, the rental rates are more stable and the development as a consequence is more stable."**

But lately there appears to be a reverse trend for South Africa, much of which has to do with the political and economic headwinds the country is facing.

"We are seeing a lot of the funds moving liquidity out of South Africa to places like Europe, particularly to Central Eastern Europe," said Tromp.

Nigeria's volatile and challenging economic situation is also not aiding investment decisions.

Of the three big investment sweethearts, it is Kenya that Tromp is more upbeat about. "Kenya is one of the more mature developing markets in Africa. The economy is more stable, the rental rates are more stable and the development as a consequence is more stable."

But retail in Kenya is perhaps overheating, cautioned Gitonga.

Tromp said: "Much of the air has gone out of the markets and this presents many good development opportunities.

"Start looking actively at development plots. Study the markets; make sure you have the information to back up your investments. Choose the right scale, and invest.

"The market is likely to come back in the next five to 10 years. And when it comes back, it goes very fast." ■

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Glenda Williams was a guest of Messe München South Africa (Pty) Ltd at Expo Real.

REAL ESTATE OPPORTUNITIES IN SUB-SAHARAN AFRICA

Decreasing risk on the continent is fuelling optimism. Many countries have implemented reforms and there is increasing political stability. Populations, too, are more aware of their rights, demanding good governance and transparency. "The pace of development is incredibly fast. And we will see assets and investment opportunities emerging that are not on the agenda today," said Holger Adam, country head: Ghana for Rendeavour, an urban developer with focus on Ghana, Kenya, Nigeria, Zambia and the Democratic Republic of Congo.

One of the biggest opportunities is to be found in the low- and middle-income residential sector, says Moses Kusiluka, land commissioner of Tanzania. Adam and Gikonyo Gitonga from Axis Real Estate concurred and also agreed on the prospects that student housing, industrial and logistics and retail afford the continent.

Small 15 000m^2 to 20 000m^2 shopping centres are common for African cities. While there are some aggressive plans to develop bigger schemes, generally it is this smaller size that would suit a large African capital city typically because of the purchasing power and structures, explained Tromp.

There's opportunity in infrastructure too. "Governments are ready to invest in the big items like ports and highways. Where we see the difficulties are in the 'last mile'. This is where Rendevour comes in to not only de-risk investments but also provide the infrastructure – specifically that last mile," said Adam.

It is not necessarily the Grade A-properties that produce the best returns in Africa. A-Grade offices, often occupied by multinationals, tend to be volatile. But there is stable demand for Grade-B property, particularly in second-tier locations due to the growth in indigenous companies, Adam told *finweek*.

Even given the limited foreign investment there is stiff competition for the best assets in town. This has to do with the limited quality assets available. Africa is a young market with very few existing investment-grade buildings. So there's potential to develop that investment-grade building, even in partnership with government or a local co-investor. ■

Holger Adam
Country head: Ghana at Rendeavour

Gikonyo Gitonga
Managing director at Axis Real Estate

Images supplied

on the money

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CEO INTERVIEW

By Jana Jacobs

The challenge: Drawing more tourists to Mzansi's shores

SA Tourism's new CEO, Sisa Ntshona, took office in October and he is adamant that tourism needs to contribute far more to the country's GDP. If his passion and straight shooting are anything to go by, this banker might just boost the business of tourism yet.

New SA Tourism boss Sisa Ntshona plans to grow the number of foreign visitors to the country by 4m people in the next five years – a tough ask when considering that foreign visitors totalled 8.9m last year, according to data from the United Nations' World Travel Organization (UNWTO).

Admittedly, the 2015 numbers were lower than expected – they reflected a year-on-year decline of nearly 7% – due to the impact strict new visa regulations had on foreign arrivals. Some of the rules have since been relaxed, but the tourism industry remains concerned about the need for travelling minors to have an unabridged birth certificate.

Speaking at a recent media breakfast at the SA Tourism offices in Johannesburg, Ntshona said 2015 was a "very bad year" for South African tourism. While numbers have recovered in 2016 – the latest data from Statistics South Africa (Stats SA) shows the number of tourists have increased by 14% year-on-year in August to 833 638 – Ntshona warned that this shouldn't be celebrated as double-digit growth. "Essentially we are trying to restore [tourist numbers] back to the level we were at." (Also see graphics.)

Ntshona believes it is important to grow the industry's contribution to the economy from the current estimated 9.4% of GDP to the "late teens". He explained that there is a lot of pressure on South Africa's economy to diversify – away from its reliance on natural resources – and he believes part of this diversification can come with tourism, and SA Tourism has a responsibility to help achieve this.

Sisa Ntshona
CEO of SA Tourism

> "If you start to build things not only for the locals, but also for the entire ecosystem and the people outside, it makes you very attractive from an FDI perspective."

"Tourism is definitely under pressure from an expectation point of view in terms of how we are going to contribute towards getting this economy up and running again, because we touch on so many sectors," said Ntshona.

It's about collaboration

But meeting these expectations is not always easy.

"One of the things I have learnt very quickly is that the government space is one of what I call co-ordination failure. Because we functionally report to ministries, we forget to look horizontally at other role-players that impact our environment. Our messages must be aligned."

Taking the visa regulation fiasco as an example, Ntshona explained that although he believes the department of home affairs was essentially coming

A tourist viewing the wild coast of Tsitsikamma National Park

Gallo Getty Images/iStockphoto

from a good place in terms of trying to prevent potential child trafficking, the lack of co-ordination among the various role-players gave rise to unintended consequences.

For Ntshona, the delicate balance that needs to be struck is the ability to weigh up the challenges and address them without killing the economy in the process.

"We have left that conversation to much bigger, more important people than us – and it is being addressed at Cabinet level – but we definitely input our views and thoughts into that process in terms of getting around this," he said.

SA Tourism also has to contend with limited resources. "Like any business we have limited resources and unlimited needs and wants. One of them is about the pocket of investment money that we have. Where do we invest? How do we decide which countries to target? Which do you leave out? You can't be everywhere."

Optimal return on investment when it comes to profiling South Africa around the world again comes down to collaboration, emphasised Ntshona.

"If you look at the latest stats, we can probably cover between 25 and 30 countries, little over 10% of the world's countries." However, by partnering with, say, the department of international relations and co-operation, SA Tourism immediately achieves points of presence in 126 countries, explained Ntshona. Looking ahead, it will be a case of finding out how to collaborate and share resources in this regard.

"I think we find ourselves in a very interesting space as a country. We are starting to see business getting together and saying issues of civil society are not just government's problem, but they are our entire problem. [They] want to be part of that solution, and that's a good thing. As SA Tourism, we are going to be tapping into this," he said.

"We also need to be realistic. We don't operate in a vacuum; we are competing with other countries. Why should people come here? Essentially, we are a long-haul destination."

"How we talk about our country becomes important – my view is that it's not what we talk about, but how we talk about it."

The business plan

For Ntshona, it's all about how South Africa positions itself.

Who is Sisa Ntshona?

"I've been in banking for most of my life. I started off about 15 years ago in investment banking within the Absa Group at the time and I suppose I found my joy probably for the last 10 years heading up SME Banking for the Africa division of Barclays."

SO WHAT IS A BANKER DOING IN TOURISM?

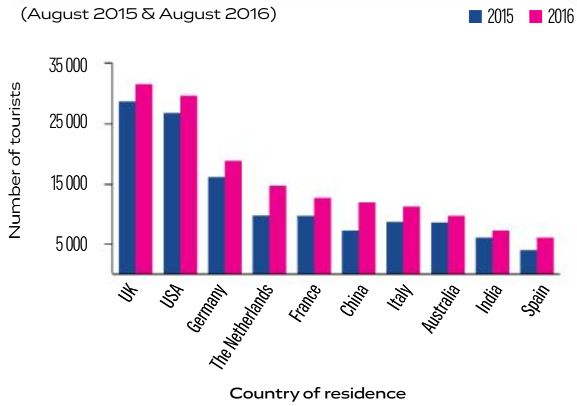
Ntshona has been asked this before, and his take is that bankers are very versatile. "If you just look at MTN as an example, the chairman is a banker and they've just hired another banker to run MTN itself; Mark Barnes, a former colleague of mine, heads up the Post Office; and the Tourism Business Council of South Africa is chaired by Tito Mboweni – one of the biggest bankers out there. So I'm in good company."

HOW DO YOU FEEL ABOUT WORKING IN THIS NEW SECTOR?

"Tourism is such an awesome space – think about it: from the time a tourist arrives in a country sectors are being stimulated." This starts with getting forex, finding accommodation and eating food. For Ntshona, these are just small examples of how the ecosystem can link up. "We're not even talking about the big stuff like infrastructure, for example."

NUMBER OF TOURISTS FROM THE 10 LEADING OVERSEAS COUNTRIES

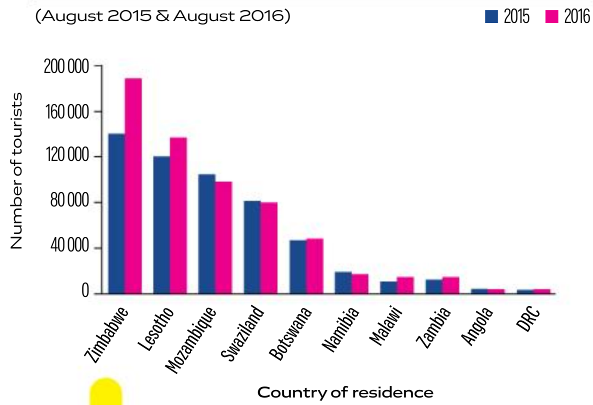
(August 2015 & August 2016)



SOURCE: Stats SA *Tourism and Migration* report, August 2016

NUMBER OF TOURISTS FROM THE 10 LEADING SADC COUNTRIES

(August 2015 & August 2016)



SOURCE: Stats SA *Tourism and Migration* report, August 2016

"If you look at certain economies or cities around the world we would like to emulate, Paris is one of them. Besides it being a very romantic city, and everybody wanting to go there, it's a huge powerhouse in terms of realising the potential of tourism," enthused Ntshona.

He explained that there are more tourists in Paris than people who live in the city – with the infrastructure around Paris exceeding the needs of locals.

"Think about it: If you start to build things not only for the locals, but also for the entire ecosystem and the people outside, it makes you very attractive from an FDI perspective."

Quality assurance is another factor that Ntshona believes is essential. "We are in Africa and we come with a certain perception and a certain risk premium. Things can happen in Paris, but they are resilient because of [the strength of the Paris brand]."

What do the numbers say?

- A total of 3.5m travellers passed through South African ports of entry in August 2016, according to Statistics South Africa's latest *Tourism and Migration* report. The number of tourists increased by 14% from 731 248 in August 2015 to 833 638 in August 2016.
- Since 2010, the number of international tourist arrivals increased from 8.074m to 8.904m in 2015, reflecting an increase of about 10% (or roughly 2% per year on average), according to data from the UNWTO. Numbers are expected to improve in 2016, following a decline in 2015 due to visa regulations. "We are recovering, but it's still not good enough... It's encouraging, but we're definitely not out of the woods yet," Ntshona said.
- Over the same period, global international tourist arrivals increased at an average growth rate of nearly 5% a year. Ntshona believes this is a good growth rate for SA to target. "If we can't grow as quickly as the world is, then we are actually going backwards."
- According to UNWTO estimates, the number of foreign tourist arrivals is expected to grow at a rate of between 3.5% and 4.5% this year. Its long-term forecast is for an average growth rate a year of 3.3% between 2010 and 2030, to reach 1.8bn by 2030.
- The most popular destinations for international tourists in 2015 were France (84.5m arrivals), the US (77.5m), Spain (68.2m), China (56.9m) and Italy (50.7m).

Selling South Africa

However, Ntshona believes that South Africa has a uniqueness that can't be experienced anywhere. The issue is getting "those flavours" out there.

"How we talk about our country becomes important – my view is that it's not what we talk about, but how we talk about it."

Yes, our universities are burning, the economy is tight, and Ntshona believes that we must acknowledge these problems, but it is "about how we finish the sentence".

"Do you finish it with the view that this country is going down? Or: We are a resilient nation, we have had much bigger challenges before – we were on the verge of civil war in the late 80s, early 90s and we overcame that. If we legitimately believe we are mobilised to overcome, it changes things completely."

SA Tourism could spend a lot of energy on profiling the country as one of the best in the world, but Ntshona is of the view that if one of the 54m South Africans meets a tourist here or overseas and paints our country in a negative way, it negates all of it.

Ntshona also believes strongly in stimulating the domestic tourism sector. "Most tourism economies around the world have a strong foundation of domestic tourism, and on top of that foreign tourism. In our country it's the other way around. You could attribute that to a couple of things; it could be our history... So we really have to do a considerable amount of work to stimulate that sector."

While Johannesburg, Cape Town and Durban operate as tourist hubs, it is important to remember other areas as well. If South Africans begin to embrace a travelling culture, this could bring prosperity to outlying areas, emphasised Ntshona.

"Tourism is a contact sport. It's personal, it's people-friendly, people-hungry. Let's grow this space and pull as many people [as possible] in." ■

editorial@finweek.co.za

By Jana Jacobs

Accessories inspired by the diversity of Africa

Passionate about Africa and her adopted city of Johannesburg, Maria McCloy's vision is to promote the beauty of African aesthetics through her unique fashion accessories. From earrings to bags and her trademark shoes, Maria's range has become a stylish favourite.

"I am excited that I am part of a movement embracing our African roots, which are so beautiful, but have been destroyed in the past by colonialism and apartheid. Today, African aesthetics have been sidelined to Heritage Day and weddings – I'm part of the movement that says we should wear our heritage everyday, everywhere."

Johannesburg-based journalist, publicist and accessories designer Maria McCloy has been infusing African inspirations into her fashion practice since 2007 and regularly collaborates with other African creatives who work in the bustling city's centre.

What did you do prior to starting your own business?

Well, for most of my life I have had my own business. I used to run a media company called Black Rage Productions with Kutloano Skosana and Addiel 'Dzino' Dzinoreva, who I met at Rhodes University in 1994. We started our company in 1996, creating media that covered SA urban culture and we were very successful, but closed in 2009.

How did Maria McCloy Accessories come about?

In 2007, I was home in Lesotho and on my way to my favourite seshoeshoe and blanket shopping spots in and around the Maseru Market area. I walked past a stall where the most amazing wire earrings were on sale. These earrings, crafted by David Makoae (who now heads up the earring process for me) were unlike any other of the many wire earrings I had seen before.

I asked him to craft me bigger ones, and when I was back in Johannesburg, everyone was begging to buy them from me. I started stocking them at Stoned Cherrie, and they appeared in their SA Fashion Week Collection, as well as in Marianne Fassler's. Soon, singer Lira was wearing them in all her publicity shoots, and all the stylish women in town were coveting them.

How did you come to expand your product offering?

The clutches [clutch handbags] came about because I've always loved African culture, creativity and aesthetics. My parents moved a lot when I was a child, so I lived in England, Nigeria, Sudan, Lesotho, Mozambique and South Africa. These places and my friends from all over the world influenced me, as did my parents' strong African aesthetic in terms of art, fabrics and books in our home. Sotho culture is part of my heritage, so that also features strongly.

In 2011, I was doing publicity on a Congolese movie called *Viva Riva*. When I was considering what media gift to create, I decided on a clutch made of African prints. Once I had some made, I realised I had the next product that I could sell.

In 2012, I started covering shoes from

Q&A:

Maria McCloy
Journalist, publicist and accessories designer

low-cost chain stores in cloth, and it was the shoes that really garnered me a lot of media attention and more customers.

How do you produce the shoes?

In 2013, I found two shoemakers (Romano Marmeggi and Buyi Ndzimandei) in Johannesburg's city centre, and with their craftsmanship I was able to add women's flats, made from scratch, to my collection. The real turning point came when I found my Jeppestown factory in 2015 because I could now make next-level sneakers, brogues and men's formal shoes featuring my wax print and seshoeshoe fabrics. Under the skill and guidance of Romano and Buyi, there are now 18 equally talented and wonderful workers at this factory.

I recently found a women's shoe factory in Durban, where we will be able to produce flats and heels, which is very exciting.

How do you find the creative inspiration?

The inspiration was organic; I've always loved accessories, magazines, music, pop culture, urban culture, fashion and African culture.

My main inspiration is Africa and the bustling, creative, pan-African city of Johannesburg. One can draw inspiration from anywhere on this continent: West African mudcloth, Nigerian aso oke, Ghanaian kente, the pyramids of Sudan and Egypt, Ndebele walls, Basotho blankets, the list goes on. Why not use Tsonga, Venda, Sotho, West African and Congolese cloth for shoes, clutches and necklaces?

I source all my fabrics from Johannesburg's inner city. Within the centre you'll find an infectious energy among the awesome buildings. This is also where I meet creatives to work with, like Hloni Nhlapo from Qwa-Qwa, who heads up the necklace process of the business; Festus, a Nigerian bag maker; my factory of South Africans in Jeppestown, and amazing Zulu shoemaker Petros at Kwa Mai Mai market.

How did you get funding to get started?

I still fund everything myself, through sales, and I also put all I earn from the publicity work I still do into the business. What has also been key is corporate gift orders for clutches, notebooks, diaries and necklaces, as those are bulk orders. The next step is to get the mix right so that the shoes are the right price and produced at the right volumes to be stocked in other stores.

I'd love some investment and a business adviser. It's been "so far, so good" on my own, but my strengths lie in my creative eye and instinct, having a good sense of the market, my ability to find creatives to work with – and of course publicity and social media. And growth has been good – at the end of every year I have achieved something new and reached greater heights.

But I'm sure I'm falling short when it comes

I source all my fabrics from Johannesburg's inner city. Within the centre you'll find an infectious energy among the awesome buildings.

One can draw inspiration from anywhere on this continent: West African mudcloth, Nigerian aso oke, Ghanaian kente, the pyramids of Sudan and Egypt, Ndebele walls, Basotho blankets, the list goes on.

to terms like "business plan", "strategy" and "finding investors".

Where do you currently operate and do you have expansion plans?

I sell at Market On Main every Sunday in Johannesburg's Maboneng Precinct and at the Old Biscuit Mill in Woodstock, Cape Town, on Saturdays. During the week I am at a workshop in Newtown, Johannesburg.

I am building a website and talking to online and physical stores. My men's range is gorgeous, now I need to make a women's range that matches – it's hard to find factories in SA, but I do not want to move production offshore. I'm committed to, and in love with Africa.

I know my shoes have a market all over the world, so that's the end game.

What have been the three biggest difficulties you've had to overcome?

1. Finances, coupled with a lack of any kind of formal business structure and organisation.
2. I innovate a lot and create trends, only to find that some of my suppliers (and others) have gone on to make the very same bags and necklaces I created! But I have a good lawyer now.
3. One has to keep innovating and build a loyal customer base that supports you, your story and your growth.

Biggest lesson learnt?

I've learnt a lot as a business owner since 1996. I experienced the pitfalls of co-creating something really fantastic; something creative and ground-breaking, which also birthed the careers of many young people who are doing so well in media today. This endeavour, however, crumbled for financial reasons, and I'd hate for that to happen with my current business.

How tough is competition in your sector, and what differentiates your product from others?

Retail is super hard – and it's hard when you create something, market it, make it desirable via media and celebrity endorsements, and then a year later your bags and the necklaces you popularised are being sold on every pavement!

That said, African prints are a trend now, but everyone in Johannesburg knows I was using them on bags and shoes originally back in 2011 already. Plus, there are so many African inspirations, from pots to beads to textiles and basket weaves; I'll never run out of inspiration.

I have many ideas – watch this space!

What is the best business advice you've ever received?

I think I still need some on the business side. But, luckily, I have friends in fashion like Thula Sindi, Marianne Fassler, Felipe Mazibuko and Sheldon Kopman. This means that an everyday conversation is filled with advice.

What was unexpected?

That men's fashion would be such a key market, especially since I originally started out with women's accessories.

How do you stay motivated?

I love this continent. I love this city. I love culture, music, partying, art, fashion, architecture and political debate. And creating is my happy place. I'm just always inspired and motivated.

What are your non-work habits that help you with your work-life balance?

Hmm...it all bleeds into each other, I'm not sure there is balance. But work should feel like play, right? It's an endless stream of inspiration, networking and creating.

I do gym and swim, and I'm learning to DJ and have played four gigs so far, which has been a delight indeed.

What is your three-year goal for your company?

To have a men's and women's range. To be distributed globally. To make money. ■

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By Glenda Williams

One cool customer

The mesmerising **Ford Mustang** convertible rekindles the open-top driving adventure.

Flirting with the sun while driving is not that commonplace in South Africa. But cars like the Mustang convertible are rekindling the top-down driving spirit. There is even more of an incentive to the purchase when one is not talking telephone number prices for one of these aspirational cars… and even more so if it happens to be an iconic cult car.

You know you have an established cult product when a generation of buyers who have yet to experience the car first-hand are queuing up to buy it.

Not many people would dole out wads of money for one of the most expensive purchases we make in our lives without testing it first. But this is what some Ford Mustang buyers have done. And when you delve into the car's heritage, you understand better why this is the case.

Driving a Ford Mustang, especially the convertible variant, is a unique behind-the-wheel experience. It's a bit like having permission to show off.

There is no disputing that the Ford Mustang is a head-turner. Its cult status commands attention. Its iconic and aggressive styling and presence demand attention. There is so much history and hype to this muscle car that it's nigh impossible to ignore.

Its status as a high-performance

TESTED:

American muscle car has been further cemented by its many movie appearances. It was perhaps the movie classic *Bullitt*, which featured accomplished racing driver and movie heartthrob of the time Steve McQueen, that propelled the car into cult status. That was many decades ago, yet the fascination with this mythical pony car has never diminished.

Driving a Ford Mustang, especially the convertible variant, is a unique behind-the-wheel experience. It's a bit like having permission to show off.

Turning heads, sharp intakes of breaths, wolf whistling, thumbs-up signs, hooting and pointing are just some of the reactions to this car on the road. It's impossible for most to feign indifference.

South Africans have lined up to bag a piece of the myth and status that comes with owning a Mustang. One can understand why they might do that even if they have never been behind the wheel. And it starts with the car's stand-out styling.

This is no cookie-cutter car. The muscular lines of this iconic two-door car, which include the long, aggressively sculpted hood, shark-bite grille, flared wheel arches and distinctive tri-bar tail lights guarantee a mesmerising and dominant stance. It's a wicked-looking vehicle, no disputing that. And it pays homage to its predecessor that first rolled off the lines in America more than five decades ago by embracing much of that design DNA.

The short, sloping rear deck – a key design element – is a tad less sleek in the soft top, the roof line having slightly less slope than the Fastback sibling. But the positive aspect to this is that there is more headroom in the rear.

It's even more eye-catching with the top down. It's a doddle to open the roof, and quick. A mere turn of a handle, a press of a button and hey presto, less than 10 seconds later, open-top driving. But the car has to be stationary to activate the electric-powered soft top, which is somewhat inconvenient if you happen to be driving with the top down when it begins to rain.

A soft top takes up less boot space than a hard top, so while the open-top variant offers 60 litres less luggage capacity than the Fastback, what it does offer besides more headroom in the rear is more legroom, and is thus able to more comfortably seat two adults.

I'm a fan of the sporty, aviation-inspired cockpit. Besides looking really cool, it is less complicated and more intuitive than most. It may not have some features like lane departure warning, which is these days often synonymous with premium offerings,

Ford Mustang 2.3 litre EcoBoost Convertible Automatic

0-100 km/h: 5.8 secs

Top speed: 239km/h

Power/Torque: 233kW/430Nm

Transmission: 6-speed SelectShift Auto with paddle shifters

Fuel consumption (claimed, combined): 9.8 litres/100km

CO_2 emission: 225g/km

Luggage volume: 322 litres

Safety: Front, side and curtain airbags.

Warranty: 4 years or 120 000km

Service Plan: 5 years or 100 000km

Price (incl. VAT and CO_2 emissions tax): R795 900

but make no mistake, it has an abundance of creature comforts including a host of connectivity and infotainment features, touch screen, rear camera, satnav, rain-sensing wipers, keyless entry among them.

The ambient lighting in the cabin's interior together with the illuminated Mustang door scuff plates play to the mythical atmosphere. What really tickles my fancy are the puddle lights that project the Mustang image from the side mirrors onto the ground. Not only does this feature reinforce the Mustang brand, it also has a practical use as an approach light when entering or exiting the car at night.

Seating can make or break the driving experience and the leather body-hugging, super-comfortable lumbar-adjusting seats get the stamp of approval, as does the seat heating and cooling feature.

Given the sweltering conditions there was little requirement for heating my rear during the week I was cruising the streets in this steed. Nonetheless I took one for the team and tested the heating feature on one of the "cooler" evenings. It works well and quickly. So does the seat-cooling feature that I was equally quick to test.

Top-down motoring is a breezy affair, but even so the car's robust air conditioning is a welcome relief when the hot sun is beating down upon you.

Convertibles are often associated with more body flex. Though obviously not as stiff as the Fastback, the body feels quite taut; the ride composed even when road blemishes are served up. To the Mustang's credit the suspension, though firm, produces a really comfortable ride for a car whose lineage is sport and performance.

This four-seater convertible is low and wide, its grippy ride aided by 19-inch wheels. It's a firm, agile and planted drive, quite a bit different to its predecessors, which were mostly short on high-speed cornering ability.

Using the flappy paddles or playing with the effort-adjusted steering and ride modes can rev up the vibrancy of the ride, with sport mode providing a fair dollop of dynamism. For the track enthusiast, track mode allows for the flicking out of the tail end when pushing around corners, but it is a mode that deactivates traction control and should be used with circumspection on the roads.

Steering on this rear-wheel-drive beauty is sharp and true. But this is no small car and its wide girth means it was never going to have a brilliant turning circle. But this shouldn't pose too much of a problem unless a fast getaway is on the cards. The upside is that there's more time for everyone to get eyes on the car.

The Mustang's low, sporty driving position adds to the dynamic driving experience, but for those short of stature the raised hood section may challenge optimal visibility.

This charger is equally at home on busy, urban roads and the open road. It's an effortless and comfortable everyday cruiser.

Mustang purists may pooh-pooh a non-V8 variant and cross it off their shopping list. While I admit to missing the distinctive signature V8 growl of the GT variant, the 2.3 EcoBoost engine is highly efficient and very responsive. It's no slouch, especially in sport mode, is so much fun to drive and still unmistakably Mustang.

There may be less brawn and more cult attached to the 2.3 litre engine variant, but just being behind the wheel of a Mustang, especially a convertible, makes you feel special.

It does after all have the visual presence, styling and heritage that make this car a head-turner. For a great many car enthusiasts, this steed is the definition of cool. I won't argue that. ■

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THE MUSTANG BUYER

A whopping 700 units of the Ford Mustang have been sold since launch in December last year, equating to around 64 units per month. That's nearly double the 35 to 40 units anticipated by Ford at launch. And there is a six-month waiting list for the 5.0 litre GT Fastback.

The typical male Mustang buyer, according to Ford SA, is either self-made or in senior management, aged 45 or older and well-versed in the Mustang story. The men-folk show a greater preference for the Fastback, specifically the 5.0 litre GT variant. Often the Mustang is a third addition to other everyday cars or performance vehicles. And, says Ford, these men are likely to look into opportunities to modify the vehicle further.

Women buyers are typically aged 40 or older, and make up 20% of buyers. Female buyers are usually not as specific about displacement, and show a greater interest in the cabriolet over the Fastback.

Of all 2.3 litre Mustangs sold, 26% are the convertible.

The Mustang's price has only increased once since launch. And there is no planned price adjustment, Ford tells *finweek*. Buyers of the 2017 Mustang can also look forward to Sync3, a faster responding infotainment system with a brighter and more engaging touch screen.

By *finweek* team

Managing emotion in the workplace

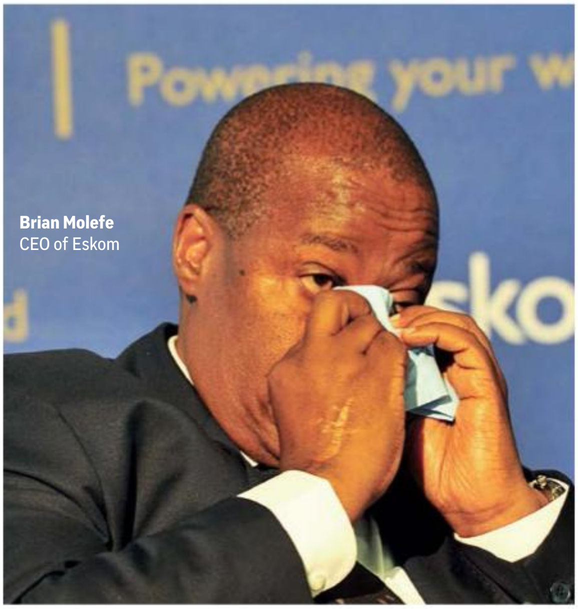
From crying to losing your temper, an emotional outburst in the office can be awkward, at best. Here's how to keep your cool as the pressure mounts.

The state capture report, recently released by the Public Protector, was alarming enough. But judging from the social media reaction, the real shocker came the following day at the sight of Eskom CEO Brian Molefe crying at a briefing.

Spilling tears in public is still seen as somewhat unseemly, even though many high-powered figures have done it – including Barack Obama and Steve Jobs, who famously cried about everything from the terms of an early Apple product warranty (he wanted a longer guarantee period) to *Time* magazine's decision to put the Mac (and not Jobs) on its cover. As economic and competitive pressure mounts, tensions are running high in workplaces around SA and managers may find it harder to check their emotions at the office door. Not that showing emotion is necessarily a bad thing. Your team will struggle to rally behind a new project if you don't display passion and enthusiasm. Shedding tears of frustration can show that you feel very strongly about an issue, and can create a moment of honesty and connection with your team members. Defending crying in the office in her bestseller, *Lean In*, Facebook COO (and frequent crier herself) Sheryl Sandberg says: "Sharing emotions builds deeper relationships."

The other emotional outlet – anger – continues to be more socially acceptable than crying (at the Eskom briefing, a raging chairman Ben Ngubane lost his temper, but this didn't even cause a ripple of social media reaction). In the end, however, anger can cause a lot of damage to your team. Repeated tantrums and tongue lashings will create an atmosphere of unpredictability and distrust, and will cause irreparable damage to your relationships.

While there is a place for emotion in the office, it needs to be appropriate, says Karen van Zyl, a consultant at The Anger and Stress Management Centre in Pretoria and Sandton. When you make people uncomfortable or have to apologise afterwards for causing offence, you have overstepped the mark. Crying constantly when you don't get your way is immature and manipulative; so is tearing up because you feel sorry for yourself. Emotional outbursts are also unproductive (you will have to spend a long time building bridges destroyed in the heat of the moment) and will damage your reputation. (Studies show that women are judged particularly harshly when they cry or react emotionally.) Also, if you start crying or lose your temper, you immediately give up some ground in a fight.



Brian Molefe
CEO of Eskom

When you make people uncomfortable or have to apologise afterwards for causing offence, you have overstepped the mark.

Key to preventing an emotional outburst is self-awareness, says Van Zyl. It is important to constantly monitor the thoughts rushing through your head, and to check your reaction. When you feel a rush of emotion, keep the following in mind:

Take time out

"When something happens that upsets or provoke you, don't react immediately," says Van Zyl. First, excuse yourself by saying something like, "I need to think about what you said, let's resume the conversation at another time." Then, remove yourself from the situation and find a quiet place to recover and calm down.

Dealing with a crying colleague

There are many reasons for crying on the job – frustration, humiliation, personal problems, and being fingered for suspect dealings with the Guptas.

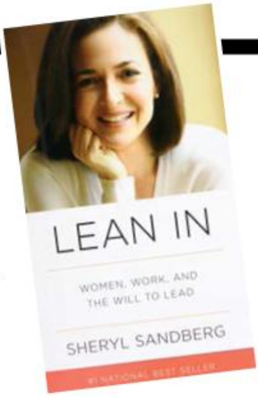
When dealing with a team member who is crying or visibly upset, first ascertain where the problem lies.

If someone is crying at their desk, don't confront them. Instead send an email of support and offer to help.

If the crying starts at a meeting or in a public setting, don't draw attention to the tears. Instead, ask everyone to take a short break and speak to them one on one.

If the reason for the emotion is work related, encourage the team member to write down exactly what the problem is and take steps to solve it.

Gallo/Getty Images



Sheryl Sandberg, Facebook chief operating officer and author of *Lean In*, admits to being a frequent crier herself.

Distract yourself

When you can't leave the environment, try to remain calm by diverting your attention: focus on your breathing, start counting backwards from 100 or use calming self-talk, says Van Zyl. Keep a stress ball close or focus on doodling on a pad of paper.

Address the root cause

While somewhat embarrassing, crying or yelling can be cathartic, alleviating some of your stress during a difficult moment. Repressing your frustration and other emotions instead can kill you in the end. It will lead to mounting stress, serious health conditions and may eventually erupt in something worse than a bout of crying.

You therefore simply have to address the source of what is causing your emotional reaction, says Van Zyl. Be assertive and vocal about what is bothering you.

Follow these three steps:

1. When you are calm, state what is making you uncomfortable or unhappy.

2. Express your needs. Focus on how you would like to be treated.

3. Convey empathy. This is vital, says Van Zyl. Put yourself in the other person's shoes and express empathy, by saying something like, "I appreciate that you're tired." Using empathy will keep the lines of communication open.

When dealing with a difficult colleague

Try to remain calm when you are confronted with aggression from a colleague. Do not fight fire with fire; don't react in anger, which will only fuel the conflict. Instead, shut down the conversation: Say something like, "I've heard what you said, now I need to think about it."

Eliminate the trigger

Identify whether there are any triggers (a person or event) that usually prompt an emotional response – and then avoid these, wherever possible.

Don't bad-mouth others

Whatever you do, don't blame others for your own overreaction. It is disempowering. ■

editorial@finweek.co.za

on the money quiz & crossword

Congratulations to Somila Tshabe, who won a prize in our recent quiz giveaway. Well done! This week, another *Freakonomics* DVD is up for grabs. For a chance to win, complete the online version of this quiz, which will be accessible on fin24.com/finweek from 14 November.

1 **True or false?** Groupon has shut down its SA operations.

2 Samsung has recalled yet another product overseas after some of them exploded. What is it?
- A top-loading washing machine
- A UHD television
- A convection oven

3 In which Johannesburg suburb is the Guptas' mansion?

4 There was an outcry after the manufacturers of a certain chocolate changed its shape. Name this chocolate.

5 Which of these is *not* a US state?
- Oregon
- Manitoba
- Delaware

6 With which Olympic silver medallist did sports minister Fikile Mbalula have a Twitter spat?
- Wayde van Niekerk
- Sunette Viljoen
- Ntando Mahlangu

7 Which country's rugby team did Ireland beat for the first time ever on 5 November?

8 **True or false?** Reginald Hlope is the deputy finance minister.

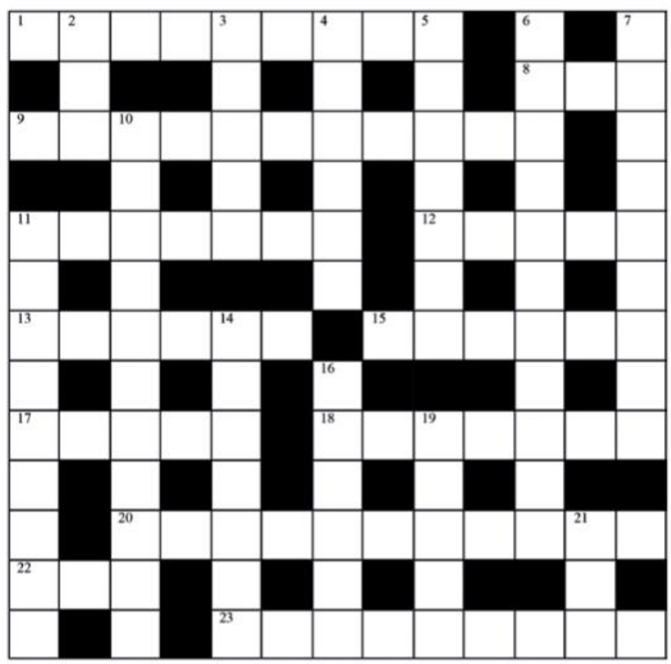
9 **True or false?** Novus Holdings is a pharmaceutical company.

10 **True or false?** Former Public Protector Thuli Madonsela has stated that she will not be returning to the ANC.

CRYPTIC CROSSWORD 657JD

ACROSS
1 He is in Thrace, whereas I am in oriental part of Turkey (4,5)
8 Deplore dissolute fellow nonetheless (3)
9 Accommodate over time (7,4)
11 Does ice melt in Wells, say (7)
12 Find out about George's car shift, for one (1-4)
13 Principal boy in rehearsal of Dynasty (6)
15 Rum issue is a favourite (4-2)
17 Chore to apply hair tint (5)
18 Zimbabwean's been led astray (7)
20 Undertakings to join forces (11)
22 Crop grass tuft (3)
23 People sent packing from French rivers (9)

DOWN
2 Short person of little value (3)
3 Dispense in right measure (5)
4 Daring son braces himself to face danger (6)
5 Felt more pain when touched (7)
6 Bungling state of empty gallery, perhaps (11)
7 Get anagram from back cover (9)
10 Doing away with reform (11)
11 Same principal – one who mindlessly agrees with an idea (9)
14 Backed an opinion Edward conveyed (7)
16 Trick into danger in French Corner (6)
19 Making a mistake is no time for dismay (5)
21 Vigil for first offender (3)



Solution to Crossword NO 656JD
ACROSS: 1 Buckle; 4 Rascal; 9 Recalcitrance; 10 Enticer; 11 Beech; 12 First; 14 Acute; 18 Ripen; 19 Emanate; 21 Burning desire; 22 Yo-yoed; 23 Cranky
DOWN: 1 Barren; 2 Cocktail party; 3 Lilac; 5 Aerobic; 6 Concentration; 7 Leechy; 8 Nitre; 13 Sunrise; 15 Crabby; 16 Hedge; 17 Heresy; 20 Anear

On margin

Drinks at the #SaxonwoldShebeen

Eskom boss Brian Molefe tried to make light of his regular visits to Saxonwold, home of the Gupta family, by saying there is a shebeen in the area. The shebeen, which reportedly runs on a "bring and bribe" basis, hasn't been found yet. (As Taryn Skikne explained on Facebook: "I understand your confusion, Mr Molefe, but to anyone not from Saxonwold that's not a 'shebeen', it's The Westcliff." Nevertheless, social media users had a field day dreaming up a drinks menu. **Here are some of Piker's favourites:**

- Subpoena Colada
- Apple Guptini
- Spin & Tonic
- Sexwale on the Beach
- Desvanrooyen on the Rocks
- The Load Shedder (it's a shot in the dark)
- Crocodile Tears on ice with a dash of Thuli Juice
- Dudu Daiquiri
- Gupta Gimlet
- J&B (Jacob & Brian)
- Castle Liar
- Jacob Walker
- Sparkling Waterkloof

Our JZ

Dan Sonnenberg from Johannesburg wrote the following letter to *Business Day* recently:

President Jacob Zuma's physiology, his entire being in fact, is well summarized by what Sir Gerald Templer once said to Lord Mountbatten: "Dickie, you're so crooked that if you swallowed a nail, you'd shit a corkscrew."

Down under

Cricket writer Malcolm Knox subtly hit out in a column at an offensive comment made by former Australian Test captain Ian Chappell about Protea fast bowler Kagiso Rabada, a player Knox describes as "worth five Australians". How did Rabada, who was wreaking havoc among Australia's batsmen, develop such pace in his bowling, Chappell's fellow commentator asked. "You'd have to ask all the batsmen in his village," he answered.

Wrote Knox in the *Sydney Morning Herald:* "With the ball, Rabada warranted all the advance publicity. From the tiny hamlet of Johannesburg, son of a medicine man, tutored in cricket at the Methodist village school of St Stithians College, born the year after South Africa's first multi-racial elections, Rabada's talent is neither raw nor rustic. His exploitation of reverse swing, his control and his forensic examination of each Australian's weakness gave his bowling coach Charl Langeveldt goosebumps. From here to Hobart, it will give his opponents the shivers."

We can certainly live with that.

Verbatim

Chris Roper @ChrisRoper
Trump did tell us the election was rigged...

Iain MartinVerified account @iainmartin1
On the bright side, Britain loses its status as world's maddest leading country. #USelection2016

Elizabeth Windsor *@Queen_UK
Revoking American Independence with immediate effect. #USElection2016

Mbali ka Macingwane @mamchunu
Ctrl + Alt + Del - Select 2016 - End Task.

Kojey @KojeyRadical
UK Citizenship for sale.
Marrying the highest bidder.
Applicants please apply below.
#USElections

Rebecca Davis @becsplanb
Doing a pub quiz. Currently coming 19th but plan to take the final results on judicial review.

Tom Eaton @TomEatonSA
Malema: We are not calling for the slaughter of white people, at least for now.
Me: Thank god. I've got like three deadlines for Monday.

Karin Richards @Richards_Karin
Just heard a guy on @CapeTalk: "It's not just Zuma, the whole blerrie lot are rotten poepholle." From the heart and well said, sir!

**Parody account*

"The worst type of man behaves as badly in his waking life as some men do in their dreams."

– Plato, *The Republic*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FRANCHISE OPPORTUNITIES
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PEOPLE'S CHOICE - BEST OF JOBURG AWARDS 2013 & 2014
VOTED BEST ITALIAN FRANCHISE
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HILLCREST, BALLITO, DURBAN NORTH, UMHLANGA VILLAGE, PIETERMARITZBURG
LIMPOPO
POLOKWANE
FREESTATE
BLOEMFONTEIN
WESTERN CAPE
SOMERSET WEST, GARDENS, PINELANDS
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